# China Economic Growth Core

# Uniqueness

## Growth Rates Increasing

### Generic

#### Chinese’s economy still strong – unharmed by questionable global conditions

Mauldin 16— John, the Chairman of Mauldin Economics which publishes a growing number of investing resources, 2016 (“Is China's Economy Really in Trouble?,” Equities, June 27, Available Online at https://www.equities.com/news/economic-analysis-thoughts-from-the-frontline-outside-the-box-the-10th-man-this-week-in-geopolitics-editorials-in-the-news-economics-editorial-here-s-why-china-hard-landing-worries-are-overblown, Accessed 06-29-2016, AV)

Although a number of well-known hedge fund managers such as Kyle Bass and George Soros have publicly stated they believe some kind of a “hard landing” in China is coming, not everyone agrees. Mark Yusko of Morgan Creek Capital is not in the China “hard-landing” camp. He says while the Chinese economy is facing a number of headwinds and risks as it tries to adjust to a consumer-based model, the authorities are wisely taking a balanced, long-term view. He thinks there is a minimal risk of serious economic problems in China in the next few years. Yusko says the biased reporting of American and European media has created major misperceptions about China on Wall Street and among the general public. According to Yusko, the Chinese government has recently had to take a number of steps to rein in corruption and minimize asset bubbles, and this does have short-term macroeconomic consequences. He believes the Western media is doing its best to make a mountain out of what is really no more than a mid-size molehill. Yusko offered his point of view on the Chinese economy in a recent interview with Mauldin Economics. “There have been worries about the renminbi and capital flight… I just think people are blowing out of proportion what is actually happening.” Of interest, Yusko also suggests that while Chinese stock markets are cheap, his firm focuses more on investments in private Chinese companies. That allows them to vet the management more thoroughly, which significantly reduces the risk of fraud or corruption. Chinese policymakers are taking a long-term perspective. Yusko thinks their primary long-term goal is turning the renminbi into a global reserve currency. He goes on to say Chinese government is looking to gold to help stabilize the renminbi and create a global reserve currency to compete with and eventually even supplant the US dollar.

#### Chinese’s economy on the verge of growth – export receipts

Ho 16— Prudence, Asia M&A Reporter at The Wall Street Journal, 2016 (“Billionaire Li Ka-Shing Says China’s Economic Outlook Is Bright,” Bloomberg, June 20, Available Online at http://www.bloomberg.com/news/articles/2016-06-20/billionaire-li-ka-shing-says-china-s-economic-outlook-is-bright, Accessed 06-24-2016, AV)

Hong Kong’s richest man said China’s economic outlook is bright in the long term, casting a vote of confidence in a country that’s growing at its slowest pace in a quarter century. China continues to have a trade surplus, the services industry is generating income and foreign money is flowing in, billionaire Li Ka-shing told Bloomberg Television’s Angie Lau in his first interview with international media since 2012. He also indicated that investors focusing on the country’s rising debt levels are missing out on the larger picture. "The long-term outlook for the mainland is good," the 87-year-old chairman of CK Hutchison Holdings Ltd. said from his office atop the Cheung Kong Center building in downtown Hong Kong. "People only see the debt in the state-owned enterprises and in households, when they need to recognize that China is a big exporter." Those export receipts -- a "positive for China" according to Li -- helped the trade surplus swell to 3.7 trillion yuan ($560 billion) last year, providing a buffer as the weaker yuan spurred capital outflows. Li’s confidence in the world’s second-largest economy comes amid signs of stabilization thanks to government stimulus measures. Yet skeptics abound, with the International Monetary Fund this month citing rapidly rising credit and excess industrial capacity among risks threatening the nation’s medium-term prospects.

#### Chinese’s economy still strong – unharmed by questionable global conditions

Matthews 16— Chris, writer at Fortune Magazine, 2016 (“Don’t Look Now, but China Is Doing Pretty Well,” Fortune, June 2, Available Online at http://fortune.com/2016/06/02/china-economy-key-indicators/, Accessed 06-24-2016, AV)

Last summer’s 40% decline in the Shanghai Composite stock index, followed by steadily declining official growth statistics, has added credibility to the argument that China’s economy is a punctured bubble, inflated by debt and government-­sponsored investment and quickly heading toward collapse. This week there was more bad news, with the private Caixin/Markit Manufacturing Purchasing Managers’ index falling to 49.2, indicating that the Chinese manufacturing sector is in contraction. Cue widespread panic over China and emerging markets in general. But as much as this “hard landing” theory has gained adherents over the past year, a collapse has yet to come. Carl Weinberg, chief economist at consultancy High Frequency Economics, calls for a little perspective when it comes to the country. The indicators that bears find so damning (industrial sector stagnation) can also be interpreted as evidence of an economy experiencing a humdrum cyclical downturn and of China’s transition from a ­manufacturing-based economy to a wealthy, services-driven one. “What G-7 country wouldn’t trade its growth rate for China’s?” he asks, pointing out that even the most pessimistic estimates of Chinese GDP growth are twice that of the U.S. Meanwhile, there are encouraging signs from credible sources that China’s economy is still strong. One stunning sign of how much cash China’s economy is producing is the fact that the country continues to export $1 trillion in capital a year. That means Chinese investors are buying in foreign assets roughly what the entire Mexican economy produces each year. If only the rest of the world had similar problems.

### Brexit

#### Brexit will boost Chinese economy – less competition

Schuman 16— Michael, journalist based in Beijing and author of "Confucius: And the World He Created”, 2016 (“Who Wins From Brexit? China,” Bloomberg, June 24, Available Online at http://www.bloomberg.com/view/articles/2016-06-24/china-could-be-the-biggest-winner-from-brexit, Accessed 06-24-2016, AV)

The United Kingdom’s exit from the European Union is creating a lot of losers: London’s finance industry. British Prime Minister David Cameron. The pound. The grand cause of European integration. But out of all of the market turmoil and uncertainty will emerge at least one big winner: China. In the short term, of course, China’s struggling economy may take a hit from the chaos in the EU, its second-largest trading partner. A smaller, less-stable European market and more cash-strapped consumers aren’t good news for Chinese exporters. Over the longer term, though, Brexit is almost certainly in China’s economic and political interests¶ Even a fully united Europe -- burdened as it is by debt woes, high costs, overbearing bureaucracy and, in some cases, dubious competitiveness -- has had a tough time competing and contending with China. Now fractured, the EU can't help but pose less of a counterweight to China’s rise on the world stage. Remember why the European Union was formed in the first place. Proponents like to stress the EU's mission to promote peace and democracy. More practically, a key goal of unification was to enhance the region’s clout in the global economy. The varied nations of Europe understood that they'd be much stronger if they forged a common market with shared institutions and even a regional currency, the euro, than if they tried to compete as independent units. Europe hoped to evolve from a collection of rich but contentious states into a giant economic bloc on par with the U.S. and more recently, China. In reality, Europe has struggled to fulfill that ideal and has suffered for it. Persistent nationalism has repeatedly limited its ability to forge a common front on both trade and geopolitical issues. Nowhere has this failure been more obvious than in Europe's relations with China. As a whole, the EU should in theory wield significant power in pressing Beijing to open its markets and play fair on trade. Instead, European nations have routinely squandered that advantage by competing with each other for Chinese investment and favors. Shortly after the U.K.’s Cameron fawned over visiting Chinese President Xi Jinping last year, German Chancellor Angela Merkel showed up in Beijing, seeking her own business deals. The opportunities for China to divide and conquer -- both to strike better bargains and to undercut complaints about its own market-distorting behavior -- will only increase now that Europe's second-largest economy has gone its own way. European businesses would certainly have been better served if the EU could have cobbled together a common policy towards China. While Chinese companies have gone on a major shopping spree in Europe -- even buying stakes in beloved football clubs -- Merkel, on a recent visit to Beijing, was left griping that foreign firms deserved to “enjoy the same rights and privileges as domestic companies” in China. If she and Cameron and Europe’s other leaders had locked arms and fought for those rights together, they’d have had a much greater chance of success. Now instead, a truncated common market in Europe will undercut the global competitiveness of its companies. European firms -- from big banks to tech start-ups -- would be much better positioned to take on rising Chinese champions if they were able to capitalize on a full-fledged Europe-wide market. Politically, too, Brexit can only widen China's scope for action. As China challenges the West’s cherished institutions and ideals, from navigation rights to human rights, the importance of defending those rules and values is rising steadily. A united EU could have presented a serious check to Beijing's growing assertiveness. We've already seen the alternative: When the U.S. expressed concerns last year about China's plans to set up a rival to the World Bank, the Europeans stumbled over themselves to sign up, undermining any hope of extracting concessions from China’s leaders.

#### China will benefit from Brexit – unchecked expansion and currency

Cheng 16— Wy, researcher and writer on politics and economics, 2016 (“How China Can Benefit From Brexit,” The Diplomat, June 30, Available Online at http://thediplomat.com/2016/06/how-china-can-benefit-from-brexit/, Accessed 07-01-2016, AV)

Although President Xi Jinping explicitly supported Britain remaining in the EU, the post-Brexit European political and economic landscapes are not necessarily against China’s interests. In fact, in the long term, China may well emerge as a big winner from the market turmoil and political uncertainties in Europe.¶ Certainly, in the short term China’s economy, like other major economies, will be troubled with the financial disarray centered in Europe. Immediately after the vote for Britain to leave the EU was announced, the yuan plunged to a five-year low. A weakened European economy will also harm Chinese exports to the region and inevitably plague Chinese investments.¶ Investors hate uncertainties; so do the Chinese leaders. A “remain” vote in the historic referendum would have allowed China to avoid these blows. It is thus not difficult to conceive why Xi was unusually vocal about his views, hoping Britain would not surprise him.¶ What’s more bothersome, as various experts argue, is the loss of an associate who has a say in the EU. Last October, during his visit to the U.K., Xi signed trade deals worth some $60 billion with Prime Minister David Cameron, confirmed London as the first international financial center to launch renminbi-dominated sovereign bonds, and marked a significant advancement of the economic ties between the two countries. Having had high hopes of Britain being a keen advocate within the EU for a China-EU free trade agreement, China now seems to have suffered a major setback in furthering its economic ties with the EU.¶ However, the profoundness of this consequence should not be overrated. When observers make such a prediction, they more or less assume that the EU will continue to be formidable politically and economically, despite Britain’s departure. But the somewhat surprising outcome of the historic referendum has unveiled the sweeping prevalence of populism, which has gained grounds faster in Britain and across Europe than many reckoned. The outcome of the vote has emboldened the far-right parties to demand exit votes in other EU member states. As domestic voices become more pronounced, the near future could see a disunited, weakened, if not cracked-up, European Union. And that will be a time when China can “divide and conquer.”¶ From cold-shouldering China over the free trade agreement to criticizing the non-democracy’s disregard of human rights, the EU member states could do so because together they had sufficient bargaining power. As the EU becomes more disunited, the European states will have to count more on their own, with far fewer bargaining chips in each of their hands.¶ Having pegged China as a daunting competitor for years, the EU states have allowed protectionist sentiments to prevail and opted to turn their backs on China. But Brexit will change the chessboard fundamentally. Not only will it force the EU states to rely more on their own bargaining power, it will also thwart each of them economically, constricting their “right” to be picky in search of foreign investments and trading partners.¶ In the coming decade, exclusive bilateral negotiations between China and each EU member state will gain more significance. Certainty, for China this will be politically more complicated, compared to dealing with one single entity. But in bilateral talks, China will definitely have the upper hand.¶ Another arena where China will benefit from Brexit is currency. As the U.K. has served as a major offshore renminbi clearing center, there is no doubt that Britain’s departure from the EU will represent a setback to the internationalization of renminbi. But in the greater picture, the market of international currency is a zero-sum game. Brexit has notably undermined the pound sterling’s standing as an international currency — just as the renminbi is set to be added in to IMF’s SDR basket in October. It’s unrealistic to imagine the renminbi capturing all of the ground lost by the pound; the Japanese yen especially emerged as a sturdy alternative in the turbulent days right after the Brexit vote. However, over the next decade, the renminbi will be capable of seizing part of the vacuum.

#### China will easily survive Brexit – growth has been sustained

Hahm 16— Melody, Writer & Reporter at Yahoo Finance, 2016 (“Brexit won't break China's economy,” Yahoo News, June 29, Available Online at http://finance.yahoo.com/news/brexit-wont-break-chinas-economy-000000437.html, Accessed 07-01-2016, AV)

The Brexit vote rattled global markets, but China has been left relatively unscathed.¶ The UK’s decision to leave the European Union won’t strongly affect China’s economy, according to Leland Miller, co-founder and CEO of China Beige Book International, a leading data firm that surveys over 3,000 firms and 160 bankers across the country every quarter.¶ He says though he doesn’t expect Brexit to have much of an impact, many unknown variables may abound in the near term such as other trade re-negotations or a global slowdown that might force China to spur up stimulus. But, ultimately, it’s hard to speculate about the potential repercussions when Brexit will likely impact global markets for the next several years.¶ “It’s so new. Obviously, everyone’s going to be thinking that there’s a sea change globally,” Miller says. “I don’t think it’s going through the heads of the average Chinese business quite yet.”¶ Last summer, China experienced a massive stock market crash (the Shanghai Composite dropped 8.5% in a single day), which came after investors piled money into Chinese equities despite the country’s weak economy and company profits.¶ Miller says the Chinese economy has come a long way from a year ago and is actually on the mend. Driven by the services and construction industries, China is experiencing “moderate trend growth,” according to China Beige Book’s latest report.¶ “Markets may find this quite surprising considering all the gloominess in the aftermath of the Brexit vote,” he says.¶ Things are looking much better, with the Chinese economy rebounding from real weakness in Q1 and Q4 of last year. “We’ve had two consecutive quarters where China looked as bad as it has been since the beginning of our survey [started five years ago],” Miller says.¶ That economic uncertainty triggered the government’s decision to cut interest rates to a record low and crack down on short-sellers, among other moves. Miller’s survey is seeing these policy responses make an impact on the Chinese economy this quarter.¶ “There are finally signs of effective fiscal stimulus, with the transportation and real estate construction sectors each suddenly showing signs of life,” he says. “This is pure fiscal stimulus coursing through the country, causing a big jump in hiring as well.”¶ But now, with the Chinese economy looking healthy, he says the government should back off.¶ “This is the time [the government] should be putting fiscal stimulus away, saving it for an even rainier day. Then they can come back with it if things are problematic,” he says. “But that’s not the Chinese way. So we’ll see if this could go on for several quarters or if it’s just a one quarter blip.”

#### China’s economy resilient post-Brexit

Hamlin 16— Kevin, Economics Writer at Bloomberg, 2016 (“Brexit Seen as a Negative, or an Opportunity,” Bloomberg, June 27, Available Online at http://www.bloomberg.com/news/articles/2016-06-27/for-china-economy-brexit-seen-as-a-negative-or-an-opportunity, Accessed 06-29-2016, AV)

After Britain’s vote to leave the European Union roiled global markets, economists are grappling with how best to gauge the potential impact on China. Views range from downbeat scenarios such as Brexit contagion weakening the yuan or undermining exports, to optimistic ones where China emerges as a safe haven amid the storm. Beyond the currency impact, economists are trying to untangle other issues such as whether China benefits from a likely delay of U.S. interest rate hikes, how it will respond to market turbulence, and whether the domestic economy and capital flows will suffer. Here’s what some China watchers are saying: ‘Bad News’ David Dollar, a senior fellow at the Washington-based Brookings Institution who previously was the U.S. Treasury attache in Beijing and World Bank country director for China: "Brexit is bad news for China, but I would not exaggerate the impact. It ushers in a period of more uncertainty in the global economy and probably slower growth, and that will affect China through trade. In addition, China had bet on the U.K. as the best entry point into the European market, and that no longer looks like a good bet. But China’s economy is primarily driven by domestic consumption now, so the effects will not be that great." "Probably China will use a bit more stimulus, especially credit for real estate and other investment, to maintain its growth. I would expect the trade-weighted yuan to rise as other parts of the world face more headwinds than China faces. China’s large capital outflow is likely to continue."

#### Brexit leaves China untarnished – too far from the eye of the storm

Zhou 16— Xin, China correspondent at South China Morning Post SCMP, 2016 (“China emerges unscathed from Brexit, at least for now, experts say,” South China Morning Post, June 24, Available Online at http://www.scmp.com/news/china/diplomacy-defence/article/1980856/china-emerges-unscathed-brexit-least-now-experts-say, Accessed 06-24-2016, AV)

Beijing may brush off limited, short-term turbulence brought about by Britain’s exit from the European Union, Chinese scholars said, but the dynamics of its relationships with London and the bloc may shift in the long run.¶ While China is using London as a bridgehead to expand the yuan’s global clout, treating Britain as an ideal destination for overseas property and infrastructure investment, and wooing British support for its own international initiatives, they said it was too far away from the centre of the storm to be badly affected by Britain’s exit from the EU.¶ Chinese markets reacted only mildly to the British referendum that sparked the biggest global financial turmoil since the 2008 crisis – the Shanghai composite stock index lost 1.3 per cent and the onshore yuan exchange rate weakened slightly. In comparison, the Japanese stock market plunged 8 per cent as the yen rallied 5 per cent.¶ As the world’s second-biggest economy and its largest trader, China was not immune from ripples caused by Brexit, said Sun Lijian, a finance professor at Fudan University in Shanghai, but its capital account controls could provide a buffer to manage the market fallout and Beijing might become more cautious in opening up its domestic market to a stormy world.¶ Brexit “may also add international pressure to do more in terms of growth and maintaining exchange rate stability, and China is expected to face such pressure at the G20” meeting in Hangzhou, China, in September, Sun said.¶ China’s zeal for investment in Britain might cool off a bit if the terms of its exit from the EU turned out to be unfriendly to business, said Zhang Ming, a researcher of international investment at the Chinese Academy of Social Sciences.¶ “China may shift some deals from London to continental European hubs such as Luxembourg or Frankfurt,” Zhang said.¶ But he said there was no need to worry too much about offshore yuan development in London – a key yuan business hub along with Hong Kong and Singapore.

## Growth Rates Slowing

### Generic

#### China’s economy slowing – forecasts and second quarter data

Glenn 16— Elias, Correspondent, China Economy at Thomson Reuters, 2016 (“China economy to grow 6.6 percent, needs policy support: government think tank,” Reuters, June 28, Available Online at http://www.reuters.com/article/us-china-economy-growth-idUSKCN0ZE0CM, Accessed 06-29-2016, AV)

China's economy will grow at about 6.6 percent this year, and will need to be underpinned by policy support in the second half to counter downward pressures, according to the China Academy of Social Sciences (CASS). The forecast from one of China's top government think-tanks was reported by the official Shanghai Securities Journal newspaper on Tuesday, and marked a slightly more downbeat outlook that one given in May, when CASS had forecast growth of 6.6 percent to 6.8 percent for the year. Consumer price inflation will likely rise 2 percent for the year, while the decline in producer prices will

slow, according to the CASS forecasts. Inflation was running at 2.1 percent for the first five months of the year. Retail spending growth will be stable, but money supply growth will slow, as will growth in investment in fixed assets and property development. CASS said China should deepen economic reform and restructuring in the second half of the year, optimize leverage levels, and clean up zombie firms.

#### Bottoming of China’s economy expected in 2017

Xinhua 16— the official press agency of the People's Republic of China, 2016 (“

Economic Watch: China's economy on alert for multiple shocks,” Xinhua Net, June 26, Available Online at http://news.xinhuanet.com/english/2016-06/26/c\_135467828.htm, Accessed 06-29-2016, AV)

Experts have warned of stronger downward pressure and recommended policy tools to cushion shocks as China's economy confronts challenges such as slowing investment, high debt and weak exports. China's gross domestic product (GDP) expanded 6.7 percent in the first quarter, the slowest reading since the global financial crisis in early 2009. Experts with Renmin University of China estimated in a report the economy would expand 6.6 percent annually this year, 0.3 percentage points lower than last year. Liu Yuanchun, an economist at Renmin University of China, said although the economy steadied earlier this year, downward pressure will weigh due to a volatile overseas outlook and rising financial risks. Structural reform will also increase the pain. The report observed that the world's second largest economy will reach a bottom between late 2016 and early 2017. Li Daokui, an economics professor with Tsinghua University, cautioned the investment boom will not persist, and consumer spending has shown risks. Wage growth lags behind GDP growth, and exports will not bottom out until the second half of 2017. Authorities have predicted that China's economy will follow an L-shaped path as downward pressures weigh and new growth momentum has yet to pick up.

#### China’s economy facing downward pressure

Wong 16— Jacqueline, Filing Editor at Thomson Reuters, 2016 (“China's economy faces relatively large downward pressure: central bank report,” Reuters, June 21, Available Online at http://in.reuters.com/article/us-china-economy-cenbank-idINKCN0Z70T4, Accessed 06-24-2016, AV)

China’s economy still faces relatively large downward pressure, the central bank said in its 2015 annual report, adding that it hopes to keep economic growth within a reasonable range. The People’s Bank of China reiterated it would keep monetary policy prudent and pledged to strictly control additional industrial capacity, the central bank said in the report which also contained the outlook for China’s economic conditions. The central bank expects mild acceleration of inflation, but said the inflation outlook faces uncertainty due to rising housing prices and volatility in agricultural product prices.

#### Growth declining – trade and PMI indicate slowing rates

Chandran 16— Nyshka, writer for CNBC.com, with a focus on Asia-Pacific economies and politics. She holds a bachelor's degree in Political Science and History from the University of Toronto, 2016 (“Asian economic indicators show China set to post a subdued Q2,” CNBC, June 1, Available Online at http://www.cnbc.com/2016/06/01/china-economic-news-asian-indicators-likely-to-confirm-slowdown-continues.html, Accessed 06-29-2016, AV)

With only a month left until the end of the quarter, there are tell-tale signs that China is set to log a subdued April-June performance. But it's not mainland data that economists are looking at; the tea leaves lie instead in the teapots of Beijing's Asian neighbors. Amid the high amount of skepticism surrounding the accuracy of Chinese data, a look at recent economic indicators of Japan, South Korea and Taiwan, some of China's biggest trading partners in the region, could be more fruitful, noted Julian Evans-Pritchard, China economist at Capital Economics. "South Korean exports, in particular, are a good proxy for how China is performing given the high amount of intermediate goods that Seoul exports to Beijing," Evans-Pritchard said. China buys around one-fourth of South Korea's exports and data on Wednesday revealed South Korea's total May exports contracted 6 percent on-year, marking nearly one year of straight declines and a major miss on the 1.6 percent expansion Reuters had anticipated. Exports to the world's second-largest economy meanwhile fell 9.1 percent on year, down for the 11th consecutive month. This indicates Chinese import demand is weakening on the back of tepid appetite from mainland consumers and enterprises, Evans-Pritchard said. Japanese exports paint an equally glum picture. April data showed a 10.1 percent annual fall, the fastest decline in three months, with exports to China falling 7.6 percent. China's share of Japan's exports amounts to 17.5 percent¶ Taiwan, which counts China as its biggest export market, witnessed an 11.4 percent annual plunge in April exports, with orders to China tanking 10.9 percent.¶ It's not just Asian trade data that suggest a slowing China, manufacturing Purchasing Manager's Index (PMI) are also helpful, Evans-Pritchard added. "These PMIs correlate with Chinese export performance simply because when Asian factories get more new orders, that likely signals an increase in Chinese intermediary goods." But regional factory activity declined in May. Japan's PMI stood at 47.7, its fastest pace of decline in over three years, South Korean factories reported a reading of 50.1. in May, little changed from the previous month, and Taiwan's PMI declined to 48.5, its fastest fall since October.

#### China’s economy slowing as a result of new consumption-driven economy

Chang 16— Sue, markets reporter based in San Francisco. She previously worked for Dow Jones Newswires in Asia and served as the agency's bureau chief in Seoul, South Korea, 2016 (“China’s first-quarter GDP growth likely slowed to a seven-year low,” Marketwatch, April 13, Available Online at http://www.marketwatch.com/story/chinas-first-quarter-gdp-growth-likely-slowed-to-a-seven-year-low-2016-04-12, Accessed 06-24-2016, AV)

China’s economy likely lost more momentum in the first quarter, with its gross domestic product growth slowing to the weakest level in seven years. “We expect first-quarter real GDP growth to edge down to 6.7% year on year from 6.8% in fourth quarter, with modestly slower growth in both secondary and tertiary sectors,” said Bank of America Merrill Lynch analysts in a report. The outlook is in line with the average of 6.7% projected by economists in a survey by The Wall Street Journal. If the predictions bear out, it will be the slowest quarterly growth since the GDP rose 6.2% in the first quarter of 2009, during the global financial crisis. Beijing will release official first-quarter GDP data on Thursday, which will provide more context to how the world’s second-largest economy is faring amid lingering worries that China’s economic woes could spill over to other regions and even derail the U.S.’s fragile recovery.¶The Bank of America analysts expect China’s GDP data to show tepid industrial activity and a contraction in the financial sector, due in part to a high comparison base a year earlier on the back of a surge in stock trading volume. Economists have warned that China’s economic performance will suffer as the government presses ahead with its ambitious plan to transition away from a manufacturing-intensive model to a consumption-driven economy. “We expect this trend in slowing growth to continue into 2016, likely contributing to a first-quarter 2016 year-over-year growth rate below 6.8% as GDP growth moves toward the lower end of the Chinese central government’s target range,” said Peter Donisanu, global research analyst at Wells Fargo Investment Institute.

#### Major decrease in in growth do to lack of investment

Wong 4/11 (Cal Wong is the Hong Kong Correspondent for *The Diplomat*’s China Power blog and an award winning multimedia journalist based in Hong Kong. His work has been featured on the*BBC*, Australia’s *ABC*, and Hong Kong’s *South China Morning Post*. In 2015 he won a Human Rights Press Award for a documentary he made on the universal suffrage movement in Hong Kong. Prior to writing, he worked as a banker and was a qualified Chartered Accountant in Australia before moving to Hong Kong. 4/11/16 “As China's Economy Slows, Workers' Anger Soars As workers face layoffs and unpaid wages, they are increasingly taking to the streets. “ <http://thediplomat.com/2016/05/as-chinas-economy-slows-workers-anger-soars/> )ski

HONG KONG – As the demand for products from China has decreased due to increasing labor costs and declining capital investment, the closure of factories that employ many thousands of individuals has revealed a major deficiency in the Chinese market: the protection of the roughly 270 million migrant workers China’s stellar economic rise saw the increase of employment in the manufacturing and retail sectors. Spurred on by a growing middle class and a booming export economy, jobs were plentiful and the wages appeared to be ever increasing. Since 2006, the national average yearly wages for urban workers has grown by 273 percent, according to [Trading Economics data](http://www.tradingeconomics.com/china/wages" \t "_blank). China’s three decades of growth has been driven by millions upon millions of new workers moving from the agricultural countryside to urban factories — factories that have been built on the back of government investments along with government funded infrastructure and heavy machinery. That same engine of growth produces a paradox that has long been known to economists — an increase in education levels results in a decline in fertility rates, and therefore, declining population growth. In China, the problem was exacerbated by the “one child policy,” which artificially limited China’s population growth even before increasing wealth and education levels set in. According to a 2012 [report by Accenture](https://www.accenture.com/hk-en/insight-outlook-beyond-capital-and-labor-china-productivity-frontier.aspx" \t "_blank) (updated in 2014), the Chinese working-age population may have already peaked. Adding to this problem has been the debt binge of the Chinese government, households, and corporations. The credit hole has quadrupled to 282 percent of GDP since 2007 according to a [McKinsey report](http://www.mckinsey.com/global-themes/employment-and-growth/debt-and-not-much-deleveraging" \t "_blank) and has left country with a heavy debt repayment obligation. Growth and productivity is a function of changes in labor and capital; conversely, so is its decline. To put it simply, the combined result is a faltering, debt-laden economy. As the cost of labor and capital has increased, demand has fallen. The decrease in demand for manufactured goods and the tendency of some manufacturers to over leverage has resulted in many factory closures. Oftentimes, this has left workers in the dark with many factory owners simply refusing to pay staff; some even go as far as to close up shop and disappear entirely. With no compensation for work already performed, workers have increasingly taken to the streets in protest. On April 18, hundreds of workers went on strike at SAE Magnetics in Dongguan, Guangdong Province, after it announced the closure of one of its departments, threatening the livelihoods of hundreds of workers, according to the Hong Kong based NGO China Labour Bulletin. Before taking to the streets, the workers had demanded that they receive their legally-entitled compensation but had received no response from management. The factory produces hard disk components for global customers and employs approximately 10,000 people. It was once held as a shining example of Chinese manufacturing and economic progress by former President Hu Jintao. This example is emblematic of the wider situation

#### China’s economy slumping – multiple statistical indicators

Dresbach 16— Jim, Digital Writer at Voice of America, 2016 (“The Decline of the West: Why America Must Prepare for the End of Dominance,” VOA News, March 1, Available Online at http://learningenglish.voanews.com/a/china-economy-declines/3214549.html, Accessed 06-24-2016, AV)

China’s economy continues to weaken, according to recent surveys.¶ China is the world’s second-biggest economy. Figures released Tuesday show the country’s factory production is at its lowest level in four years. The official Purchasing Manager’s Index, or PMI, tracks activity in factories. The manufacturing PMI in China is reported by Markit Economics. The index dropped to 49 in China in February. In January, the PMI was 49.4.¶ Any reading of the PMI below 50 signals contraction. It was the seventh month in a row the PMI dropped.¶Observers of the Chinese economy say February’s PMI reading could have been affected by the New Year holiday. Many factories close for an extended time and workers stay home during the holiday. Another survey showed China’s economy is slumping. The Caixin/Markit purchasing managers’ index fell to a five-month low of 48 last month. It was the 12th month in a row that the index declined. The index calculates economic output, new orders and employment. The economy in China grew at an annual rate of nearly 7 percent in 2015. That was the slowest amount of growth in 25 years. To give the economy a boost, the Chinese announced a round of spending to help the economy and added to the money supply. The People’s Bank of China late Monday announced it was cutting the amount of money that banks must hold as reserves.¶ The People’s Bank also added $100 billion in cash into the banking system to aid in new lending.

#### Chinese growth is decreasing and it only gets worse from here

Magnier 1/19/16Mark, Team Leader, Economics, China/Taiwan Bureau, The Wall Street Journal.Mark Magnier is based in the Wall Street Journal’s Beijing bureau where he covers China’s economy and its broader implications for the world and the Middle Kingdom’s growing global ambitions. Before joining the Journal in early 2014, he was bureau chief in New Delhi, Beijing and Tokyo for the Los Angeles Times. In addition to his coverage of these Asian economic and political giants, he’s done extensive crisis reporting, camping out under Saddam Hussain’s bridges, covering suicide bombings in Israel, Pakistan and Afghanistan, suffering through bad soju in North Korea and sleeping in abandoned nunneries in East Timor.Jan. 19, 2016 5:39 a.m. ET “China’s Economic Growth in 2015 Is Slowest in 25 Years” <http://www.wsj.com/articles/china-economic-growth-slows-to-6-9-on-year-in-2015-1453169398> ) ski

BEIJING—China recorded a pronounced deceleration in growth last year, affirming that [a multiyear slowdown](http://www.wsj.com/articles/china-data-augur-more-weakness-1453139758) is biting the world’s second-largest economy harder and shows little sign of abating. The growth rate, released by the government on Tuesday, moderated to 6.8% for the fourth quarter and 6.9% for 2015. The annual pace was the weakest in a quarter century, and the quarterly level undershot market expectations, posting its lowest reading since the financial crisis and [signaling weakening economic momentum](http://www.wsj.com/articles/chinas-economy-grew-nearly-7-in-2015-premier-says-1452951549). Tuesday’s figures put a grade on [a tumultuous year](http://www.wsj.com/articles/the-perils-of-chinas-market-plunge-1452144800) that saw the slowdown’s impact spill over to global markets and [batter the government’s reputation](http://www.wsj.com/articles/china-stocks-trading-called-off-for-second-time-this-week-1452133928) for competent economic management.Chinese leaders held an economic policy meeting Monday with senior officials. While state media accounts projected a tone of determined optimism, President [Xi Jinping](http://topics.wsj.com/person/J/Xi-Jinping/6475) also urged the officials “to stabilize short-term growth.” Premier [Li Keqiang](http://topics.wsj.com/person/L/Li-Keqiang/7155) talked of “increasing downward pressure” on the economy, complicated by slack global demand. “The real economy basically hasn’t picked up very well,” said Nomura Group economist Yang Zhao. “We’re going to have a choppier sea ahead of us.” With growing debt and too much housing and factory capacity, economists—and even Chinese officials—project a tougher year ahead. The stock markets have stumbled into the new year, erasing gains from an unsteady recovery after a summertime crash. And, economists said, the [tools the government has traditionally used](http://www.wsj.com/articles/chinas-central-bank-cuts-rates-1445601495) to revive growth—infrastructure spending, easy credit and ramped-up exports—appear increasingly ineffective. The 2015 growth rate reported by the government’s statistics bureau was down from the 7.3% gain reported in 2014. Doubts have been raised about the reliability of China’s economic data, though, and 2015’s reported rate sparked renewed concern that growth is slowing faster than the government is saying. “China’s reported growth rate for 2015 raises many questions rather than providing full reassurance about the economy’s true growth momentum,” said Eswar Prasad, a professor of trade policy at Cornell University and the former head of the International Monetary Fund’s China division. Fears over slowing momentum in China and Beijing’s handling of the economy have combined with concerns over plunging oil and commodity prices to pull down nervy global stock markets since the start of 2016. Wang Baoan, the head of the National Statistics Bureau, told reporters that China’s economic data was “valid and reliable” and its methodology “in line with global standards.” Mr. Wang said that economic growth last year met the government’s target for medium-to-high growth. He considered the rate hard-earned given that global trade is shaky and markets are volatile. The 6.9% figure is not very low,” Mr. Wang said at a media briefing on the data. Other data released Tuesday traced the deepening slowdown. Value-added industrial output rose a less-than-expected 5.9% in December compared with a year earlier, slowing from 6.2% growth in November. Fixed asset investment in nonrural areas climbed 10.0% last year, compared with an increase of 10.2% for the first 11 months of the year. Retail sales, a bright spot in the economy, grew 11.1% in December from a year earlier, a tick down from November’s 11.2% increase. In the downturn, China’s economy has diverged along two tracks, with the industries that powered it for so long getting hit harder while services and household consumption power ahead. Service industries last year managed to absorb job losses from manufacturing. The trend to greater reliance on consumption rather than investment and industry is one the government has long said it wants to encourage. Mr. Wang, the statistics chief, said that transition is expected to make progress this year. But as growth sputters further and the government’s ability to prop it up flags, economists and Chinese officials expect more companies to get hit and layoffs to rise. Guo Xiaogang, a deliveryman for an online store, said competition in Internet commerce has become so intense that he has fewer packages to deliver by electric cart—and a harder time making a decent wage. “Of course I’m concerned,” said the 32-year-old, wearing a red uniform and standing in western Beijing. “If I change jobs, maybe I can afford to buy more, but right now it’s not really possible.” With the gloomier outlook, Chinese officials have said the government is looking to increase deficit spending this year to generate growth, even if that tactic has limits. Higher spending on infrastructure last year showed signs of kicking in as investment levels grew faster after lending in November and December increased, and the government is expected to spend more heavily on infrastructure this year, but the upturn may be short lived given that investment figures showed weakening in December. “This raises the question of how sustainable the policy impact is,” said [J.P. Morgan Chase](http://quotes.wsj.com/JPM)& Co. economist Haibin Zhu. “It’s not sustainable.” Economists add that the economic benefits are weaker than in previous years given the continuing drag from factory investment and diminished investment returns. Other sources of recent growth are also unlikely to come to the economy’s aid.

#### China’s econ is falling and will continue to slow down

Eades 1/19/16David Eades is a journalist and newsreader working for [BBC News](https://en.wikipedia.org/wiki/BBC_News). He presents the news between 0800-1200 Tuesday-Friday however he still shares this with Geeta Guru-Murthy and on various programmes during the week, including [World News Today](https://en.wikipedia.org/wiki/World_News_Today). He also presents previously BBC Radio 4's [The World Tonight](https://en.wikipedia.org/wiki/The_World_Tonight). He has held the posts of Europe Correspondent, Ireland correspondent and senior Sports News Correspondent, as well as the specialist position of [Channel Tunnel](https://en.wikipedia.org/wiki/Channel_Tunnel) Correspondent at the time of its construction. He has presented the evening slot on BBC News 24 most weekdays alongside Carrie Gracie. David has reported on many other major news events. He has also presented weekend editions of Breakfast. He is a mentor and trainer for BBC journalists and presenters and also delivers presentational training beyond the broadcasting field. He runs his own business called "Allday Media Ltd", providing film production services. He is also a consultant to political lobbyist Camberton. [[1]](http://www.camberton.com/people/david-eades). Camberton provides public affairs services to corporations mainly in the gambling sector and its clients have included [Betfred](https://en.wikipedia.org/wiki/Betfred) and [Ladbrokes](https://en.wikipedia.org/wiki/Ladbrokes). [[2]](http://www.camberton.com/case-studies/betfred) David also moderates at international conferences, in particular on areas of European affairs, Sustainability and Sport. He is married to Teresa. He has two sons, Oliver and Rob, and three stepsons, Jamie, Toby and Dominic. 19 January 2016 “China economic growth slowest in 25 years“ <http://www.bbc.com/news/business-35349576> )ski

Chinese Premier Li Keqiang has said weaker growth would be acceptable as long as enough new jobs were created.¶ But some observers say its growth is actually much weaker than official data suggests, though Beijing denies numbers are being inflated.¶ Analysts said any growth below 6.8% would likely fuel calls for further economic stimulus. Economic growth in the final quarter of 2015 edged down to 6.8%, according to the country's national bureau of statistics.¶ After experiencing rapid growth for more than a decade, China's economy has experienced a painful slowdown in the last two years.¶ It's come as the central government wants to move towards an economy led by consumption and services, rather than one driven by exports and investment. But managing that transition has been challenging. ¶ ¶ Some argue that China's focus on creating an economy driven by consumption is misplaced. They say as the country attempts to rebalance its economy, it should focus on productivity in order to sustain high growth.¶ "While higher consumption can support growth in the short run, there is little in economic theory that emphasises the expenditure side of GDP as a driver of growth," HSBC's John Zhu said in a note.¶ Mr Zhu also said that China's current stage of development would require more investment, not less, and that the country would rebalance naturally towards consumption and services in time.¶ "Pushing the economy along those paths too soon would be dangerous," he said.¶ It's said so often that it has become a financial markets cliché - when China sneezes, the rest of the world catches a cold.¶ The drama of China's stock market crash over the last year has affected investor sentiment and data out today is unlikely to improve matters. But frankly, news that China is slowing down shouldn't come as a surprise.¶ The government has been broadcasting this for some time now as it attempts to transition from a state-led investment and manufacturing economy to one more dependent on services and consumption. Those two aspects now make up 50.5% of the economy, up from 48.5% in 2014.¶ But the real concern is just how badly China's economy is likely to do in the future, and whether these figures can be trusted at all.¶ Critics say China's data is unreliable and that real growth figures may be much weaker. Recent provincial economic data has indicated that growth could be much lower than what the government says it is.¶ hina's headline annual economic growth numbers are important to the rest of the world - but so too are other monthly economic data as they can provide a more in-depth look at the economy and where it's heading.¶ Monthly industrial production (IP) and retail sales numbers for China were also released on Tuesday, with both December numbers coming in just slightly worse than expected.¶ Industrial production - or factory output - expanded 5.9% in December, down from 6% in November. Retail sales grew 11.1%, down from 11.3% in November.¶ "[The] health of the labour market, retail sales and industrial production data are all key indicators for growth," said Catherine Yeung from Fidelity International in a note.¶ "Like any economic data, it's important to look at the themes and trends that drive them and not just the headline figure.¶ "When you look at China with this lens, we're not seeing a meltdown, just a slowdown," she added.¶ Others said Tuesday's numbers were actually a relief.¶ "GDP was generally in line with what many, including the IMF, expected," said economist Tony Nash.¶ "China's growth in 2015 was equivalent to the size of the entire economy of Switzerland or Saudi Arabia," he said. "That's not an easy feat and shows the magnitude of the accomplishment," he added.

#### Weakening econ only going to get worse with inflation increasing along with a growing defecate

Parietti 1-16-16 (Melissa Parietti is a literature enthusiast who employs great discernment in matters of business and finance. A writer of fiction and nonfiction with previous work experience in the debt collection and finance industries, her creative efforts have been published by various journals. She enjoys analyzing data and finding trends. Melissa holds a Bachelor of Science in Business Administration from SUNY Geneseohttp://www.investopedia.com/articles/investing/011316/4-economic-challenges-china-faces-2016.asp )ski

A [weakening Chinese yuan](http://www.investopedia.com/articles/forex/090215/chinese-devaluation-yuan.asp) and a shrinking money supply are the key factors causing China's economic challenges in 2016. Researchers at Deutsche Bank forecast a difficult year for China. China's factories are producing goods that haven't been sold. Financial market volatility may reflect overestimated needs that have led to underutilized resources Apartment towers remain unoccupied. The recently approved 2016 economic plan seeks to address these issues. At the Central Economic Work Conference, the potential for stagnant growth was a reoccurring discussion topic at the meeting of the country's top economists. The country's growth depends on the success of China's 2016 plan Previously, [debt and investment](http://www.investopedia.com/articles/investing/081415/china-looking-deleverage-its-existing-debt.asp) fueled China's expanding economy. Chinese leaders know that future growth cannot rely on debt and investment alone, and spending measures will not be a part of the plan to fuel the economy. Tampering with the country’s interest rate could harm the economy further. Measures to decrease the housing supply could negatively impact China's financial market and industry sector. High levels of debt have harmed economic output.The country seeks to double gross domestic product by 2020 from 2010's figures. China's budget deficit is expected to expand in 2016. The National Bureau of Statistics reported that factory output was 5.6% from October 2014 to October 2015, lower than what was previously projected. Property investment has remained relatively low, which has affected overall growth.An overabundance of homes has contributed to deflationary pressures in China, and leaders plan to reduce [the supply](http://www.investopedia.com/articles/economics/11/intro-supply-demand.asp) of homes in 2016. A strong U.S. dollar in 2016 will add to deflationary pressure in China. China's 2016 growth rate is projected at 6.5%. Stagnating growth rates may trigger deflation; the yuan may not gain enough strength in 2016 to prevent deflation. Government policies aim to increase aggregate demand. The Chinese government requires growth of at least 6.5% for five years to achieve structural goals. Loan defaults jumped by 43% from the first quarter of 2015 to the third quarter of 2015. From the first quarter of 2014 to the third quarter of 2015, they increased by 73%. Many companies are operating at losses in the industrial sector. China's banking system is overexposed to the corporate sector. The entire country feels the impact when corporations [default](http://www.investopedia.com/terms/d/default2.asp) on their loans. Decreasing costs for entrepreneurs is part of China's 2016 plan. A strengthening U.S. dollar causes loan payments to go up for Chinese companies that have loans in U.S. currency. High leverage has contributed to the defaulted loan issue.A survey by CPA Australia found that 13.2% of companies generating revenue in China expected a decrease in revenue for 2016 of 2% to 29%, and 1.5% expected a decrease of 30% or more. The same poll named rising costs, falling demand from key markets and slowing domestic consumption as the main economic challenges for China's economy in 2016. Going forward, the government plans to cut taxes to reduce company liabilities.Overexposure to the U.S. dollar has contributed to high [capital outflows](http://www.investopedia.com/terms/c/capital-outflow.asp) in China. Bloomberg estimates that $500 billion left China from September 2015 to December 2015. Capital outflow difficulties have occurred partially due to competition between banks on deposit rates. The greatest risks companies face are a slowing domestic economy, increasing competition, and rising operation and labor costs. CPA Australia’s poll showed 45.3% of responders expect an increase of 2% to 29% in capital expenditures, with 4.4% projecting an increase of 30% or more. In 2016 and beyond, leaders expect modest growth after the economy’s slowdown. Beijing’s growth target was 7% for 2015.

### Brexit

#### Brexit kills China-EU trade flows – threatens exports

Mullen 16— Jethro, reports, writes and edits for CNN Digital out of Hong Kong with a focus on news in the Asia-Pacific region. He's worked at CNN since 2011, 2016 (“China-U.K. 'golden era' at risk from Brexit,” CNN Money, June 28, Available Online at http://money.cnn.com/2016/06/27/news/economy/china-brexit-uk/, Accessed 06-28-2016, AV)

"The impact of the Brexit vote is already showing in the international financial markets, adding new uncertainties for the world economy and making it more difficult for the economy to rebound," Chinese Premier Li Keqiang said Monday.¶ China's huge economy is far from the most vulnerable to the turbulence unleashed by British voters' decision to divorce the EU. Chinese exports to the U.K. account for a tiny portion of its GDP.¶ But the EU as a whole is a different story: It's China's biggest trading partner, buying 350 billion euros ($385 billion) of Chinese goods last year. The risk of Brexit fallout taking a heavy toll on European growth is already prompting warnings about tougher times for Chinese trade.¶ "This will only add downward pressures on exports," said economists at HSBC, calling for China to take steps to stimulate its economy.

#### Brexit will result in a decline of the Chinese economy

Beech 16— Hannah, journalist for TIME Magazine. She specializes in Asia, and is sometimes credited as TIME's Southeast Asia bureau chief, 2016 (“The Brexit Result Will Have China Worried,” Time, June 24, Available Online at http://time.com/4381309/china-brexit-eu-trade-uk-economy/, Accessed 06-24-2016, AV)

“The U.K. has stated that it will be the western country that is most open to China,” Xi said in written comments to Reuters. “This is a visionary and strategic choice that fully meets Britain’s own long-term interest.”¶ Now, as Britain prepares to exit the European Union after Friday’s historic referendum, that golden relationship looks decidedly tarnished. Cameron, Europe’s China booster, will resign by October. Brexit means that Beijing will lose its strategic access to Europe through Britain. The global market turmoil that followed Friday’s vote sent the Chinese yuan, already propped up by strenuous official intervention, to its lowest point against the dollar in more than five years.¶ Chinese Foreign Ministry spokesperson Hua Chunying tried for a balanced approach on Friday afternoon, according to Chinese state media, noting that China respected the British people’s choice while also hoping that the U.K. and E.U. could reach a successful agreement. Yet during his British tour, Xi was clear about China’s position, saying he supported a “prosperous Europe and a united E.U.”¶ Brexit undermines China’s economic relationship with the E.U. at the precise moment that the Chinese economy is slowing and in search of global partners. Over the past few years, Chinese companies have invested heavily in Britain. Everything from London cabs to Weetabix now survive with help from Chinese investors. These totems of Britannia, though, may lose some of their power when Britain no longer serves as a launching pad for Chinese investment into Europe. Beijing will lose a British ally that had been pushing for completion of an E.U.-China trade deal, as well as for China to gain Market Economy Status—a designation that would shield the world’s second-largest economy from certain E.U. trade tariffs. (Last month, the European parliament, amid protectionist sentiment across the continent, rejected granting market economy status to China, although a further vote is planned for December.)

#### Brexit hurts Chinese economy – loss of major trading partners

Horwitz and Timmons 16— Josh, correspondent for Quartz who covers internet business and technology in Asia, Heather, Asia Correspondent for Quartz, based in Hong Kong, where she writes about everything from ramen to derivatives to censorship, 2016 (“The British Brexit vote is awful news for China,” Vox, June 24, Available Online at http://qz.com/715805/the-british-brexit-vote-is-awful-news-for-china/, Accessed 06-24-2016, AV)

During a visit to the United Kingdom last year, Chinese president Xi Jinping not-so-subtly called on Britain to remain in the European Union.¶ “China hopes to see a prosperous Europe and a united EU, and hopes Britain, as an important member of the EU, can play an even more positive and constructive role in promoting the deepening development of China-EU ties,” said China’s foreign ministry, paraphrasing Xi’s remarks (paywall).¶ Xi’s remarks about Brexit were a major break from tradition. China doesn’t typically comment on the domestic affairs of other countries. This is in hopes that other countries will also refrain from commenting on China’s territorial disputes with its neighbors, human rights record, or heavy handedness toward Hong Kong and Taiwan.¶ Behind Xi’s opposition to the UK leaving is China’s difficult trade situation with the European Union. The European Union is currently China’s largest trade partner. In 2015, it sent 350 billion euros (about $389 billion) worth of imports into the trading block. The EU has been a key source of growth for China, too. The EU’s imports from China more than doubled between 2005 and 2015. But some members of the European Commission want tighter trade restrictions on China. European lawmakers voted in May to deny China “market economy” status, a designation that would make it more difficult to place tariffs on Chinese goods. China was supposed to receive the designation after its entrance into the WTO in 2001.¶ The EU has also been trying to increase tariffs on China’s super cheap state-supported steel, whose overproduction has upended global markets. The UK has been blocking these measures since 2014, the Independent reported citing EU Council documents.¶ UK chancellor George Osborne, meanwhile, promised a “golden decade” for the China-UK relationship in 2015, if only the two countries would “stick together.” His optimistic speech, delivered at the Shanghai Stock Exchange just weeks after one of the worst stock market meltdowns in Chinese history earned him the derision of economists and analysts, including many fellow Brits.¶ With the UK gone, the EU’s restrictions on China could get a lot tougher. Beijing, and Chinese citizens, view Britain’s departure from the EU as dangerous for that reason. In the run-up to the referendum, party mouthpiece, The Global Times, pointed out the risks of Brexit to the Chinese economy:¶ The EU is the biggest trading partner of China, while the UK is the one with the highest degree of free trade in the block and it has backed China’s market economy status. London is an important hub of the internationalization of the yuan. A Brexit will undoubtedly cast a shadow on the trade relationship between China and the EU.¶ With its largest advocate officially out, Beijing will now face more even pressure to liberalize its economy, lest it risk losing access to its most important trade partner.

## Growth Resilient

#### China’s economy resilient – yuan

Rapoza 16— Kenneth, Contributor at Forbes, Fifteen years experience reporting for the mainstream press on everything from the Iraq War to housing bubbles in Boston for The Boston Globe, to local features and international news coverage in Brazil, 2016 (“Chinese Yuan Appears 'Unbreakable',” Forbes, June 21, Available Online at http://www.forbes.com/sites/kenrapoza/2016/06/21/chinese-yuan-appears-unbreakable/#4ec9edea4e42, Accessed 06-24-2016, AV)

The Chinese yuan seems unbreakable. Having started the year worth 6.51 to the dollar, it’s now trading at 6.58 to the dollar and one of country’s biggest banks doesn’t see it getting much weaker from here.¶ The Bank of Communications said in a note to clients on Tuesday that declines in net foreign exchange sales — from U.S. dollars to Hong Kong dollars and euros — means the market is not as worried about a further weakening of the yuan. No one is rushing for an exit.¶ Chinese banks reported a combined $12.5 billion of net foreign currency purchases in May, down 47% from April, official data showed on Monday. The Bank of Communications report argued that the drop off is mainly due to closer scrutiny over capital outflow by the People’s Bank of China.¶ Beijing has been opening up the country’s current account, allowing for Chinese businesses and individuals to take money abroad and invest in everything from real estate to financial securities. Many have taken advantage of this rule change in light of China’s slowing GDP growth. China’s burgeoning middle class, and its mega rich, have been mostly confined to Hong Kong and the mainland. But over the last few years, laws have allowed for them to take their cash elsewhere and they are doing so in greater numbers. As a result of that outflow, coupled with foreign portfolio outflows as well, the monetary authorities have put out constant warnings about clamping down on locals looking to take money out of China. China’s careful monitoring and an active central bank, have kept the currency stable at a time when investment firms were figuring a 7 to 1 exchange rate was right around the corner. The dollar has gained only 1% against the yuan year-to-date ending June 20.

#### China’s economy resilient post-Brexit

Hamlin 16— Kevin, Economics Writer at Bloomberg, 2016 (“Brexit Seen as a Negative, or an Opportunity,” Bloomberg, June 27, Available Online at http://www.bloomberg.com/news/articles/2016-06-27/for-china-economy-brexit-seen-as-a-negative-or-an-opportunity, Accessed 06-29-2016, AV)

After Britain’s vote to leave the European Union roiled global markets, economists are grappling with how best to gauge the potential impact on China. Views range from downbeat scenarios such as Brexit contagion weakening the yuan or undermining exports, to optimistic ones where China emerges as a safe haven amid the storm.¶ Beyond the currency impact, economists are trying to untangle other issues such as whether China benefits from a likely delay of U.S. interest rate hikes, how it will respond to market turbulence, and whether the domestic economy and capital flows will suffer.¶ Here’s what some China watchers are saying:¶ ‘Bad News’¶ David Dollar, a senior fellow at the Washington-based Brookings Institution who previously was the U.S. Treasury attache in Beijing and World Bank country director for China:¶ "Brexit is bad news for China, but I would not exaggerate the impact. It ushers in a period of more uncertainty in the global economy and probably slower growth, and that will affect China through trade. In addition, China had bet on the U.K. as the best entry point into the European market, and that no longer looks like a good bet. But China’s economy is primarily driven by domestic consumption now, so the effects will not be that great."¶ "Probably China will use a bit more stimulus, especially credit for real estate and other investment, to maintain its growth. I would expect the trade-weighted yuan to rise as other parts of the world face more headwinds than China faces. China’s large capital outflow is likely to continue."

#### Chinese economy steadying – statistics prove

Fabi 16— Randi, Deputy Bureau Chief, Reuters Indonesia, 2016 (“China’s economy slowly steadying, Asia sentiment hits year high: Survey,” Reuters, June 23, Available Online at http://indianexpress.com/article/business/world-market/chinas-economy-slowly-steadying-asia-sentiment-hits-year-high-survey-2871160/, Accessed 06-24-2016, AV)

Sentiment at Asia’s biggest companies climbed to its highest in a year in the second quarter of 2016, helped by signs that China’s economy was slowly steadying, a Thomson Reuters/INSEAD survey showed.¶ During the quarter, China reported a marginal decline in May imports that was far less than market expectations, reflecting a pick-up in domestic demand as the government raises spending on infrastructure projects to support growth.¶ The Thomson Reuters/INSEAD Asian Business Sentiment Index, representing the six-month outlook of 139 firms, rose to 67 for April-June versus 65 three months prior – continuing a rebound from a four-year low of 58 in December. A reading over 50 indicates a positive view. In China, corporate sentiment is at its highest in almost a year, with respondents including China Jo Jo Drugstores Inc producing a subindex of 75, up from 71 in the previous survey.¶ “What we are seeing today relative to the past two quarters is that Chinese risk has gone down. People are a little bit less worried about the possibility that something sudden will happen in China,” said Singapore-based economics professor Antonio Fatas at global business school INSEAD.

#### China’s economy resilient – consumption proves

The Economist 16— an English-language weekly newspaper owned by the Economist Group and edited in offices based in London, 2016 (“Despite China’s economic slowdown, consumption is resilient,” The Economist, April 30, Available Online at http://www.economist.com/news/business-and-finance/21697597-free-spending-consumers-provide-comfort-troubled-economy-consumption-china-resilient, Accessed 07-01-2016, AV)

IF YOU believe that China’s economy is in trouble and that Chinese consumers are clinging tightly to their yuan, a visit to a local car dealership may make you think again. China has roared past America already to become the world’s biggest car market. In March sales of passenger cars zoomed again, by nearly 10% year on year. Shiny sport-utility vehicles (SUVs), the hottest, shiniest items at this week’s biennial Beijing Auto Show (pictured), did even better: sales jumped by 46% in March from a year earlier. The car market is forecast to keep growing briskly for the rest of this decade (see chart).¶ The Chinese consumer is flashing his wallet elsewhere, too. China’s box-office revenues shot up by nearly 50% on a year earlier in 2015, to $6.8 billion. Cinema operators led by Wanda Group, an ambitious local conglomerate that recently bought Hollywood’s Legendary Entertainment, have poured money into expansion; the number of screens across China has been rising at 36% a year since 2011.¶ After years of expansion, the smartphone market is peaking. Some firms still thrive: China’s Huawei, a telecoms giant, predicts that revenues from its consumer-devices division will rise by about 50% this year. But Xiaomi, an innovative electronics firm once seen as China’s answer to Apple, is losing steam. Apple itself announced weaker results on April 26th (see article). Revenues from sales in greater China fell by 26% year on year. As the market for devices matures, however, consumer spending is shifting to services: data usage has grown at triple-digit rates since 2012.¶ The unrelenting march of e-commerce continues. In 2010 online shopping accounted for only 3% of total private consumption, but it now makes up 15%. Alibaba, which processes more sales on its e-commerce platforms than eBay and Amazon combined, saw annual Chinese revenues grow to 63 billion yuan ($9.7 billion) in 2015, a rise of nearly 40% compared with a year earlier. JD, its main local rival, saw revenues leap by nearly 58%.¶ Chinese are still spending heavily abroad. Their international tax-free shopping shot up 58% last year, according to a new report from Global Blue, a big operator of duty-free shops. Overall, Chinese tourists spent $215 billion on outbound travel last year, a rise of 53% on the previous year. Ctrip, a big online travel firm partly owned by Baidu, a Chinese internet search giant, saw its revenues jump by nearly half last year, to 10.9 billion yuan.¶ As with cars, screens and travel, so with consumption generally. All retail sales across the economy, adjusted for inflation, rose by 9.6% during the first quarter, compared with the same period a year ago. The services sector, which caters to the growing demands of the middle class, has been rising by 8% a year in real terms since 2012 (see chart). Services made up 57% of economic output in the first quarter; electricity consumption in services rose by some 10%, but was flat for industry.¶ Not every market is as bouncy as it once was. A cooling economy and an official anti-corruption drive have squeezed luxury goods, sales of which fell by 2% year on year in 2015, to 113 billion yuan. But some firms are doing well. Rémy Cointreau, a premium liquor brand offering tamper-proof bottles on the mainland (“near field communications” tags tell your smartphone if the booze has been diluted), saw global revenues rise by nearly 10% last quarter and credited “improving trends in greater China”. According to Bernard Arnault, the boss of LVMH, a luxury goliath: “Analysts underestimate the Chinese economy… the fundamentals are good. Household spending is still increasing.”

#### China’s economy resilient – stocks recovering

Gamm 15— Scott, a correspondent for TheStreet TV and TheStreet.com focusing on markets and economics, 2015 (“IMF Chief Christine Lagarde Says China’s Economy ‘Resilient’ Despite Market Decline,” The Street, July 10, Available Online at https://www.thestreet.com/story/13236552/1/imf-chief-christine-lagarde-says-chinas-economy-resilient-despite-market-decline.html, Accessed 07-01-2016, AV)

China's dramatic pullback in stocks isn't a threat to its economy, at least according to Christine Lagarde, the managing director of the International Monetary Fund.¶ "We believe the Chinese economy is resilient and strong enough to withstand that kind of significant variation in the market,' she said during a press conference on Wednesday. Lagarde was referring to the 27% drop in the benchmark Shanghai Composite Index, since its high on June 12. But she also pointed to the index's impressive 74% increase over the past year. Lagarde said the recent volatility won't dampen China's hopes of having its yuan currency included in the IMF's emergency reserves, which countries access in times of need. The fund, also known as the special drawing rights basket, includes dollars, euros, pound sterling and Japanese yen. Inclusion of the yuan would be a prestigious milestone for China, but a final decision is still pending.¶ In a move to stem the selloff in Chinese stocks, which was sparked by too many investors buying stocks on margin, Chinese officials at one point suspended trading in roughly half of its stocks and banned large shareholders from exiting positions for at least six months. Although those measures raised eyebrows among many analysts, Lagarde wasn't fazed.¶ "No one should be surprised by the fact that they want to maintain an orderly movement and avoid a disorderly functioning of the market," she said.

# Impacts

## American Primacy

### Growth Kills Primacy

#### US primacy is threatened – sustained Chinese growth serves as a multiplier for conflict

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A growing number of observers believe that relations between the United States and China have taken a fundamental turn for the worse. They are not so much worried about the cumulative effects of recurring flashpoints such as arms sales to Taiwan, visits by the Dalai Lama, and territorial disputes in the South China Sea. Instead, they fear that more structural, underlying drivers — the declining gap in overall power between the two countries, America’s rebalance to the Asia-Pacific region, and disagreements over China’s campaign of land reclamation, for example — are cementing voices in Washington and Beijing that question whether the two countries can forge a durably constructive partnership. Hugh White, the Australian scholar and author of The China Choice, observed last month that a longstanding U.S. consensus — maintaining that “despite many signs of growing assertiveness, Beijing does not pose a fundamental challenge to U.S. leadership in Asia” — just might be unraveling. The Director of China Studies at Johns Hopkins’s School of Advanced International Studies, David Lampton, warned earlier this month that we are witnessing the erosion of some critical underlying supports for predominantly positive U.S.-China ties. Though the foundation has not crumbled, today important components of the American policy elite increasingly are coming to see China as a threat to American “primacy.” In China, increasing fractions of the elite and public see America as an impediment to China’s achieving its rightful international role and not helpful to maintaining domestic stability.¶ Vanessa Hope’s debut feature-length documentary, All Eyes and Ears, offers a timely and thought provoking window into these suspicions. Hope, a unique hybrid of film director and policy analyst, has produced many films in China, such as The Story of Ermei, as well as several shorts, including China in Three Words. She has also worked at the National Committee on U.S.-China Relations and with the Council on Foreign Relations’ Director for Asia Studies, Elizabeth Economy.¶ Her new documentary, featuring a superlative roster of China watchers, centers on the experiences of Jon Huntsman during his time as U.S. ambassador to China; the perspectives of his adopted Chinese-American daughter, Gracie Mei; and the tribulations of Chinese dissident Chen Guangcheng. All Eyes and Ears leaves one wondering how — if, really — the world’s most consequential bilateral relationship can progress indefinitely without an organic basis, especially as each country believes in its own exceptionalism. To date, the United States and China have managed to circumscribe strategic tensions by declaring how disastrous an armed confrontation between the world’s two largest economies would be. What All Eyes and Ears affirms, though, is that even the most compelling rationales for cooperation cannot obviate intrinsic differences.¶ Evan Osnos, whose Age of Ambition won the 2014 National Book Award, explains in the documentary that “the United States does believe that the Chinese governing philosophy is incompatible with the Western way of life.” He continues:¶ We can come up with elegant contortions in our relationship to solve these kinds of problems, but it doesn’t remove the fundamental irritant, which is that these are two very different governing systems.¶ Perversely, there are certain elements in both countries that might benefit from the calcification of strategic tensions into open hostility. The chairman of APCO Worldwide’s Greater China division, James McGregor, observes in the film that the United States and China “both have a military-industrial complex now that needs an enemy.”¶ Changing mindsets in both countries are also likely to hinder their cooperation. Midway through All Eyes and Ears, career diplomat Chas Freeman notes that the United States is experiencing “considerable difficulty on many levels. We have a chronic budget and fiscal deficit, we have a crushing debt, we are increasingly uncompetitive, our infrastructure is crumbling, and we need help.” Should the United States underestimate its comprehensive national power and its ability to manage the China challenge, it may act defensively and intensify the military component of its rebalance. China faces a mirror set of challenges: overestimating its power, underestimating U.S. resilience in world affairs, and undertaking prematurely to erode America’s system of alliances in the Asia-Pacific. According to the Director of the Asia Society’s Center on U.S.-China Relations, Orville Schell, we have yet to see the face of a China that fully believes in its own resurgence and prospects: he explains in the documentary that one or two generations will pass “before confidence that is borne of China’s success … will have psychologically changed the way in which Chinese react to the world around them.”¶ An undercurrent of All Eyes and Ears is the initial U.S. conviction — later a hope, and now, in many observers’ telling, an illusion — that China’s economic modernization would yield political liberalization in due course. While today’s Chinese, on balance, have substantially greater freedom than they did before the dawn of the Internet and microblogging platforms such as Weibo, their newfound freedom is constrained. The cofounder of Global Voices Online and author of Consent of the Networked, Rebecca MacKinnon, says in the film that “the estimate is that under 1% of Chinese Internet users are actually circumventing the Internet blocks in any kind of regular way.” Most China watchers contend, moreover, that Xi Jinping is the most powerful secretary general the Chinese Communist Party (CCP) has had since Deng Xiaoping. Beyond purging rivals within the Party, he has heightened social, political, and economic controls; cracked down on virtual private networks that Chinese netizens have used to circumvent the Great Firewall; and intensified resistance to “Western anti-China forces.”¶ Drawing on interviews with Chen and Jerome Cohen, a New York University law professor who helped secure Chen’s passage from China to the United States, All Eyes and Ears reveals the difficulties the United States has had in making human rights a central pillar of its policy towards China. Asked how the United States should “help China,” Chen replies: “Stick to your principles, put things like human rights, universal values, universal love, and rule of law first. Put your own advantage second.” Huntsman explains, however, that “one high profile human-rights case … can completely derail any progress between the United States and China.” James Mann, author of The China Fantasy, observes that in the 1970s and 1980s, the United States was reluctant to pursue a more vigorous human rights agenda because it feared the loss of Chinese cooperation against the Soviet Union. From the 1990s onward, it was reluctant to do so because it did not want to jeopardize its trade and investment ties with the mainland.¶ As China grows stronger, it will grow more difficult for the United States to balance concerns over human rights with strategic considerations. Some observers insist that China is headed for a hard landing, and the CCP is losing its monopoly on power. Most, however, while appreciating the economic and political challenges China will face, realize that China has thus far defied Western predictions: it has sustained robust economic growth while maintaining one-party rule. This recognition — resignation, perhaps — has produced a range of policy prescriptions from the U.S. commentariat. Some argue the United States should contain China; others, that it should pursue democracy and regime change over the long term; others, that it should at least stop assisting China’s resurgence. Even if a silent majority of America’s China watchers still believe in “engage and hedge” or “hedge and engage,” those mantras seem increasingly quaint.

#### Revived Chinese economic growth challenges US primacy - militarization

Blumenthal and Linczer 14— Dan, director of Asian Studies at the American Enterprise Institute, where he focuses on East Asian security issues and Sino-American relations, and Eddie, ‎Asian Studies Research Associate at the American Enterprise Institute, 2014 (“Tale of the tape: Comparing Chinese and American strategies in Asia,” American Enterprise Institute, November 10, Available Online at https://www.aei.org/publication/balance-power-tale-tape-comparing-chinese-american-strategies-asia/, Accessed 06-22-2016, AV)

China’s current seven or eight percent annual growth is unsustainable. The Chinese economy has depended on large-scale investment and exports. Today, global demand is stagnant, China is highly indebted and investment is drying up. China needs a new model of consumption led growth but has not implemented the liberal reforms required to restructure its economy. Without badly needed reform, China risks slipping into the middle-income trap.¶ The IMF recently reported that China has passed the US as the world’s largest economy on the basis of purchasing parity. But for purposes of assessing the balance of power these numbers are useless. GDP is a picture of yearly production, including wasteful production.¶ A better measure of economic size is comparative wealth. Credit Suisse just released an updated comparison of private wealth: American private wealth stands at $83 trillion dollars compared to China’s $21 trillion. Even when public debt is factored in, the US remains around $40 trillion wealthier than China. It is that wealth that can be translated into national power. ¶ If China faces slowing growth rates while lagging behind the US in national wealth, then China will face real dilemmas in protecting its far-flung economic interests. In 2004, President Hu Jintao introduced the concept of “New Historic Missions” for the PLA. Since Hu’s policy announcement, the critical new mission is the defense of China’s sea lines of communication (SLOC). China is now a maritime trading nation, and its imports and exports—including increasing energy imports—must pass through critical chokepoints that it does not control, including the Straits of Malacca. China is growing its fleet of nuclear submarines and flowing them into the Indian Ocean. But to really project maritime power at longer distances China would have to make substantial investments in larger surface ships, global C4ISR, and logistical hubs and fueling stations along the Indian Ocean. This could prove both too expensive, too risky, as China exposes itself to threats from terrorism, piracy and hostile nations, and too difficult to accomplish diplomatically, particularly if India resists. The CCP has a real problem with one pillar of its strategy—continued economic growth and defense of economic interests. ¶ The CCP continues to devote enormous resources to maintain internal stability. China’s heavy-handed tactics in Xinjiang have provoked further violence against China. Recent attacks include a market bombing and several knife attacks. Now China is at risk of further violence from jihadists returning from the ISIS campaign.¶ Regarding Tibet, China remains highly sensitive to other nation’s interactions with the exiled Dalai Lama, and Tibetans are resisting China’s imperial policies. Taiwan’s de facto independence continues to present a contradiction for Beijing’s “One China” principle. Beijing reneged on its agreement to allow free 2017 elections in Hong Kong, sparking large-scale protests. The CCP’s imperial control is more challenging. At the same time, middle class cynicism about corruption is growing and wealth is leaving China.¶ China has made great strides in its coercive regional strategy and its counter-intervention strategy. It is forcing a response by the United States to regain its primacy. But the US has not demonstrated the political wherewithal to resource its response.¶ However, China’s gains and the US slow-footed response is not the whole story. The CCP’s grand strategy also includes continued economic growth that is increasingly reliant upon maritime trade. Becoming a true maritime power is very expensive, and China faces hostile powers along its periphery. Finally, China’s main weakness is its tenuous political legitimacy. It is ruling over an increasingly restive empire with aspirational citizens demanding more liberty and justice. The CCP has to spend enormous resources on imperial control and domestic security.

#### China’s rise erodes US unipolarity

Daniel 14— Patrick, Co-Founder of The Future Society at the Harvard Kennedy School, 2014 (“Are we witnessing the end of the unipolar moment and the demise of American primacy?,” Medium, April 14, Available Online at https://medium.com/savvy/are-we-witnessing-the-end-of-the-unipolar-moment-and-the-demise-of-american-primacy-9f5b238ea9c#.cisjy0apu, Accessed 06-22-2016, AV)

The term unipolar moment refers to the period, immediately following the collapse of the Soviet Union, in which the United States as the unchallenged superpower constituted the center of world power.[2] Declinists emphasize the value of history, and assert that the global economy resembles those of past eras, by which the US will decline just as British power has declined in the 20th century. The likely contender to replace the US as the hegemonic power seems to be China. Kissinger admits that China’s quest for equal partnership with the US is no longer an outsized claim of a vulnerable country given its increasingly financial and economic capacities.[3] This seems to validate the declinists view, and there is a strong case made that with China catching up, it will be able to challenge US power. Joffe refers to a study by Goldman Sachs, which estimates that the Chinese economy will have overtaken the US as the largest economy by 2050.[4]¶ Goldman Sachs recently lowered this figure to 2027, however. According to Ferguson, we are living through one of the most astonishing shifts there has ever been in the global balance of financial power; the end of an era, stretching back more than a century, when the financial tempo of the world economy was set by English-speakers, first in Britain, then in America.[5] The recent growth in China seems to confirm this trend. The Chinese economy over the past thirty years has grown at an annualized rate of 9-10%.[6] Many argue that America’s fear of China is unwarranted, and they point to Japan, which was predicted to overtake the US. However, the rise of China is much more credible if we consider China more as a continent than as a country.[7] China constitutes one fifth of world population, and is the third largest country by territory. Even if China’s political system might not be regarded as sustainable, its economic machine based on capitalism is functioning.¶ This makes China even more threatening in a way than the Soviet Union, which did not have a functioning economic model. David Li thinks that this trend, which was started by Deng Xiaoping when he opened up and reformed the country, is likely to continue because the new generation of Chinese people are not satisfied with the progress that has been made. China is already asserting influence, and this is testament of the transition that we are witnessing from a unipolar to a multipolar world. China’s rise has lifted millions of people out of poverty, and Li contends that in international relations China is looking for peace and collaboration.[8] This has given hopes to the poor in the world, and China’s model of social and economic institutions gives the world an alternative model to the Western way of governing a country. After the financial crisis, trade patterns were shifted and China discovered that its most dynamic market is its internal one.[9] All this suggests that the unipolar moment is slowly eroding. China is likely to grow in magnitude over the coming decades, and not rely so much on exports but instead develop its own domestic market.

#### Continued Chinese growth will kill US primacy

USCNPM 15— US-China Perception Monitor, A website that monitors mutual perceptions between the United States and China. Sponsored by The Carter Center, 2015 (“A Tipping Point in U.S.-China Relations is Upon Us,” US-China Perception Monitor, May 11, Available Online at http://www.uscnpm.org/blog/2015/05/11/a-tipping-point-in-u-s-china-relations-is-upon-us-part-i/, Accessed 06-24-2016, AV)

For eight U.S. and five Chinese administrations, Washington and Beijing maintained remarkable policy continuity—broadly speaking, constructive engagement. This continuity has persisted despite periodic instabilities, problems, and crises. Some of these developments required time, flexibility, and wisdom to heal. They sometimes left scar tissue. But, none of these challenges ever destroyed overall assessments in both our nations that we each had fundamental, shared interests requiring cooperation and that the costs of conflict outweighed possible gains.¶ Assessments of relative power in both countries for much of the last four decades created few incentives in either society to rethink fundamental policy. Chinese seemingly were resigned to “live with the hegemon,” as one respected Chinese professor put it, and Americans were secure in their dominance and preoccupied with conflicts elsewhere. After the 9/11 attacks on America, China was seen as non-threatening, indeed willing to use some of its resources in the “War on Terror.” In a reflective moment after the 9/11 attacks, then Ambassador to China Sandy Randt delivered a speech to Johns Hopkins–SAIS in which he said, “We have seen the enemy, and it is not China.”¶ In the economic realm, expectations for growth in each society created common interests that subordinated many underlying frictions, whether economic or human rights. The positive balance between hope and fear tipped behavior toward restraint and patience. Things unfortunately have changed dramatically since about 2010. The tipping point is near. Our respective fears are nearer to outweighing our hopes than at any time since normalization.¶ We are witnessing the erosion of some critical underlying supports for predominantly positive U.S.-China ties. Though the foundation has not crumbled, today important components of the American policy elite increasingly are coming to see China as a threat to American “primacy.” In China, increasing fractions of the elite and public see America as an impediment to China’s achieving its rightful international role and not helpful to maintaining domestic stability.¶ Former Australian Prime Minister Kevin Rudd put it well, characterizing the narrative of an unidentified Chinese Communist Party document [perhaps the new National Security Blue Book], and analogous American thinking, in the following terms: “In Beijing’s eyes the U.S. is deeply opposed to China’s rise … American strategy toward China, it said, had five objectives: to isolate the country, contain it, diminish it, divide it, and sabotage its political leadership.” The American narrative, as Rudd described it, is hardly more positive about Beijing: “Beijing’s long-term policy is aimed at pushing the U.S. out of Asia altogether and establishing a Chinese sphere of influence spanning the region.”[1]¶ Since about 2008, there has been a sequence of regional and global developments and incidents that have provided fertile soil in which these negative narratives have grown in each of our societies. Among them are: the 2008 financial crisis, incidents in Hong Kong, developments in the south and east China seas, U.S. inability to quickly exit Middle Eastern and Central Asian quagmires, and the confusion in America and elsewhere about where China is headed internally and in terms of its foreign policy. Current Chinese debate over western (universal) values, subversion, and “black hands” unsettles most outside observers, not least Americans.¶ What is happening? If developments continue along the current trajectory, both countries will have progressively less security, at higher cost; the probabilities of intentional, accidental, or catalytic violent confrontations will increase; the world will enjoy less cooperation on transnational issues requiring joint Sino-American efforts; and, economic welfare in both societies will be diminished. What can be done?

#### China’s economic growth is the only scenario for threatened American primacy

Kupchan 12— Charles A., Professor of International Affairs at Georgetown University and Whitney Shepardson Senior Fellow at the Council on Foreign Relations, 2012 (“The Decline of the West: Why America Must Prepare for the End of Dominance,” The Atlantic, March 20, Available Online at http://www.theatlantic.com/international/archive/2012/03/the-decline-of-the-west-why-america-must-prepare-for-the-end-of-dominance/254779/, Accessed 06-24-2016, AV)

¶ American primacy is not as resilient as Kagan thinks. His most serious error is his argument that Americans need not worry about the ascent of new powers because only Europe and Japan are losing ground to them; the United States is keeping pace. It's true that the U.S. share of global output has held at roughly 25 percent for several decades. It's also the case that "the rise of China, India, and other Asian nations ... has so far come almost entirely at the expense of Europe and Japan, which have had a declining share of the global economy." But this is not, as Kagan implies, good news for the United States.¶ ¶ The long run of Western hegemony has been the product of teamwork, not of America acting alone. Through the 19th century and up until World War II, Europe led the effort to spread liberal democracy and capitalism--and to guide Western nations to a position of global dominance. Not until the postwar era did the United States take over stewardship of the West. Pax Britannica set the stage for Pax Americana, and Washington inherited from its European allies a liberal international order that rested on solid commercial and strategic foundations. Moreover, America's many successes during the past 70 years would not have been possible without the power and purpose of Europe and Japan by its side. Whether defeating communism, liberalizing the global economy, combating nuclear proliferation, or delivering humanitarian assistance, Western allies formed a winning coalition that made effective action possible.¶ ¶ The collective strength of the West is, however, on the way down. During the Cold War, the Western allies often accounted for more than two-thirds of global output. Now they represent about half of output--and soon much less. As of 2010, four of the top five economies in the world were still from the developed world (the United States, Japan, Germany, and France). From the developing world, only China made the grade, coming in at No. 2. By 2050, according to Goldman Sachs, four of the top five economies will come from the developing world (China, India, Brazil, and Russia). Only the United States will make the cut; it will rank second, and its economy will be about half the size of China's. Moreover, the turnabout will be rapid: Goldman Sachs predicts that the collective economic output of the top four developing countries--Brazil, China, India, and Russia--will match that of the G-7 countries by 2032.¶ ¶ Kagan is right that the United States will hold its own amid this coming revolution. But he is certainly misguided to think that the relative decline of Europe and Japan won't matter. Their falling fortunes will compromise America's ability to maintain global sway. Indeed, Kagan seems to admit as much when he acknowledges, "Germany and Japan were and are close democratic allies, key pillars of the American world order."¶ ¶ Kagan is ready to gloss over the consequences of the West's diminishing clout because he thinks that most emerging nations will cast their lot with the United States rather than challenge American hegemony. "Only the growth of China's economy," he writes, "can be said to have implications for American power in the future." Kagan is confident that the rise of others--including Brazil, India, and Turkey--"is either irrelevant to America's strategic position or of benefit to it."¶ ¶ But Washington simply can't expect emerging powers other than China to line up on its side. History suggests that a more equal distribution of power will produce fluid alignments, not fixed alliances. During the late 19th century, for example, the onset of a multi­polar Europe produced a continually shifting network of pacts. Large and small powers alike jockeyed for advantage in an uncertain environment. Only after imperial Germany's military buildup threatened to overturn the equilibrium did Europe's nations group into the competing alliances that ultimately faced off in World War I. As the 21st century unfolds, China is more likely than other emerging nations to threaten U.S. interests. But unless or until the rest of the world is forced to choose sides, most developing countries will keep their options open, not obediently follow America's lead.

#### Sustained Chinese growth will result in the decline of the US by 2021

Layne 12— Christopher, University Distinguished Professor of International Affairs and Robert M. Gates Chair in National Security at the Bush School of Government and Public Service at Texas A&M University. His fields of interest are international relations theory, great power politics, US foreign policy, and grand strategy, 2012 (“This Time It’s Real: The End of Unipolarity and the Pax Americana,” International Studies Association, Available Online at http://www.carlanorrlof.com/wp-content/uploads/2013/03/This-Time-Its-Real-The-End-of-Unipolarity-and-the-Pax-Americana.pdf, Accessed 06-24-2016, AV)

American decline is part of a broader trend in international¶ politics: the shift of economic power away¶ from the Euro-Atlantic core to rising great and regional¶ powers (what economists sometimes refer to as¶ the ‘‘emerging market’’ nations). Among the former¶ are China, India, and Russia. The latter category¶ includes Indonesia, Turkey, South Korea, Brazil, and¶ South Africa. In a May 2011 report, the World Bank¶ predicted that six countries—China, India, Brazil,¶ Russia, Indonesia, and South Korea—will account¶ for one-half of the world’s economic growth between¶ 2011 and 2025 (Politi 2011; Rich 2011). In some¶ respects, of course, this emergence of new great¶ powers is less about rise than restoration. As Figure 1¶ indicates, in 1700 China and India were the world’s¶ two largest economies. From their perspective—especially¶ Beijing’s—they are merely regaining what they¶ view as their natural, or rightful, place in the hierarchy¶ of great powers.¶ The ascent of new great powers is the strongest¶ evidence of unipolarity’s end. The two most important¶ indicators of whether new great powers are rising¶ are relative growth rates and shares of world¶ GDP (Gilpin 1981; Kennedy 1987). The evidence¶ that the international system is rapidly becoming¶ multipolar—and that, consequently, America’s relative¶ power is declining—is now impossible to deny,¶ and China is Exhibit A for the shift in the world’s¶ center of economic and geopolitical gravity. China¶ illustrates how, since the Cold War’s end, potential¶ great powers have been positioning themselves to¶ challenge the United States.¶ To spur its economic growth, for some three decades¶ (beginning with Deng Xiaoping’s economic¶ reforms) China took a low profile in international politics and avoided confrontation with the United¶ States and its regional neighbors. To spur its modernization¶ as well, China integrated itself in the¶ American-led world order. China’s self-described¶ ‘‘peaceful rise’’ followed the script written by Deng¶ Xiaoping: ‘‘Lie low. Hide your capabilities. Bide your¶ time.’’ The fact that China joined the international¶ economic order did not mean its long-term intentions¶ were benign. Beijing’s long-term goal was not¶ simply to get rich. It was also to become wealthy¶ enough to acquire the military capabilities it needs¶ to compete with the United States for regional hegemony¶ in East Asia.2 The Great Recession caused a¶ dramatic shift in Beijing’s perceptions of the international¶ balance of power. China now sees the United¶ States in decline while simultaneously viewing itself¶ as having risen to great-power status. China’s newly¶ gained self-confidence was evident in its 2010 foreign¶ policy muscle-flexing.¶ Objective indicators confirm the reality of China’s¶ rise, and the United States’ corresponding relative¶ decline. In 2010, China displaced the United States¶ as the world’s leading manufacturing nation—¶ a crown the United States had held for a century.¶ The International Monetary Fund forecasts that¶ China’s share of world GDP (15%) will draw nearly¶ even with the United States (18%) by 2014 (see Figure¶ 2). This is especially impressive given that China’s¶ share of world GDP was only 2% in 1980 and as¶ recently as 1995 was only 6%. Moreover, China is on¶ course to overtake the United States as the world’s¶ largest economy. While analysts disagree on the date when this will happen, the most recent projections by¶ leading economic forecasters have advanced the date¶ dramatically over what was being estimated just a few¶ years ago. For example, in 2003 Goldman Sachs predicted¶ that China would surpass the United States as¶ the world’s largest economy in 2041, and in 2008, it¶ advanced the date to 2028 (Wilson and Purushothaman¶ 2003; O’Neill 2008). However, the most recent¶ forecasts are now that China will pass the United¶ States much sooner than 2028. The Economist Intelligence¶ Unit (2009) predicts China will become the¶ world’s largest economy in 2021; PricewaterhouseCoopers¶ (2010) says 2020, and the Economist magazine¶ says 2019 (World’s Biggest Economy 2010) (see¶ Figure 3).3 More strikingly, according to a 2011 International¶ Monetary Fund study, in terms of purchasing¶ power parity (PPP), China will overhaul the United¶ States in 2016. In fact, economist Arvin Subramanian¶ of the Peterson Institute for International Economics¶ has calculated, also using PPP, that China is already the world’s largest economy (Subramanian 2011).4¶ What could be clearer proof of the United States’ relative¶ decline than the fact that China will soon leapfrog¶ the United States and become the world’s largest¶ economy, if indeed it has not already done so?

#### Chinese economic growth will inevitably mean the end of US primacy

White 10 Hugh, Professor and Head of the Strategic and Defense Studies Centre, The Australian National University, 2010 (“The Trajectory and Implications of China’s Continuing Rise for Northeast Asian Regional Integration,” *Toward an ideal Security State for Northeast Asia 2025*, pp. 147-148, Mansfield Foundation, Available Online at http://www.mansfieldfdn.org/backup/pubs/pub\_pdfs/nea\_white.pdf, Accessed 06-24-2016, AV)

So this essay adopts as a working hypothesis that China will keep growing¶ fast enough to overtake the U.S. in economic power within a few¶ decades. This will have profound implications for Northeast Asia’s order.¶ American strategic primacy has been the foundation of Northeast Asian¶ stability and order for a century, and since the early 1970’s the fact that¶ U.S. primacy has been uncontested by other Asian major powers has¶ underwritten the most stable and prosperous era in Asia’s history. The¶ sources of American strategic primacy are complex, but ultimately it seems¶ hard to argue that the most fundamental source of American strategic¶ power and political influence is economic strength. If so, then as China’s¶ economy grows, America will no longer enjoy the strategic and political¶ advantages that its unchallenged economic primacy has provided for so¶ long. This suggests that the U.S.-led order that has been instrumental¶ in Northeast Asia’s decades of peace and prosperity cannot be expected¶ to survive in its present form—or perhaps at all. Indeed it suggests that¶ attempts to preserve the U.S.-led order as China’s power grows may run¶ more risks of competition and conflict than constructive and deliberate¶ efforts to adapt the order to new power relativities by conceding some¶ measure of leadership to China. To many of us in and around Northeast Asia—and not just Americans—¶ this will seem an unwelcome, counter-intuitive conclusion. Certainly¶ from an Australian perspective there is no doubt that continued U.S.¶ primacy would be by far the preferred outcome. The question however¶ is not whether in 2025 a U.S.-led order is desirable, but whether it is¶ achievable as China’s power grows, and whether attempts to sustain¶ U.S. primacy in the face of China’s growing power might not do more¶ harm for regional stability and order, and make it harder to achieve an¶ “ideal state,” than allowing it to be replaced by something else that allows¶ China more elbow-room. Some will call this defeatist. I would say it’s¶ simply realistic, because there is simply no reason to believe that China¶ will continue to accept a subordinate position to the U.S. in Northeast¶ Asia’s strategic order as its power approaches and eventually overtakes¶ America’s. There are very few examples in history of powerful countries¶ refraining from seeking political strategic power as their economic power¶ grows. Post-war Japan is perhaps the only relevant one. To expect China¶ to continue to accept U.S. primacy as the basis for order in Asia as its¶ power grows is to expect it to behave like Japan. That is both improbable,¶ and also in a way unreasonable. Viewed from China’s perspective, why¶ should they refrain from seeking the political and strategic benefits of¶ their economic achievements? Of course one good reason would be that¶ such a move would threaten regional order. But from China’s perspective¶ their leadership would pose no threat to regional order. They no doubt¶ believe that Northeast Asia could build a perfectly stable order in which¶ China plays a larger leadership role. Indeed from their perspective, the¶ risk to regional order might come not from China’s desire to expand its¶ leadership role, but from America’s determination to thwart it.

### A2: Growth Kills Primacy

#### China’s economic growth doesn’t threaten US – three reasons

Thompson 14— Loren, focuses on the strategic, economic and business implications of defense spending as the Chief Operating Officer of the non-profit Lexington Institute and Chief Executive Officer of Source Associates, 2014 (“Five Reasons China Won't Be A Big Threat To America's Global Power,” Forbes, June 6, Available Online at http://www.forbes.com/sites/lorenthompson/2014/06/06/five-reasons-china-wont-be-a-big-threat-to-americas-global-power/#3a43984b1b5c, Accessed 06-24-2016, AV)

China’s rapid economic rise and growing assertiveness in relations with other nations has provoked concern in Washington that America is facing a new rival for global dominance. World Bank estimates suggest China may surpass the purchasing power of the U.S. economy as early as this year, meaning that America will cease being the world’s biggest producer of wealth for the first time since it overtook Britain on the eve of the 1876 centennial. U.S. critics of Beijing frequently ascribe China’s success to mercantilist trade policies, and point to other irritants such as growing military investment and state-directed cyber attacks to depict the Middle Kingdom as a menace on the march.¶ It certainly doesn’t help matters when Chinese military leaders attending international forums describe America as a nation in decline, and attribute the Obama Administration’s restrained response in Ukraine to “erectile dysfunction.” However, there is no need to make the administration’s Pacific pivot the prelude to a new Cold War, because for all its dynamism China looks unlikely to be any more successful in dethroning America from global preeminence than Japan and Russia were. This is partly due to intrinsic economic and cultural advantages America enjoys, and partly to limits on China’s ability to continue advancing. Those limits don’t get much attention in Washington, so I thought I would spend a little time describing the five most important factors constraining China’s power potential.¶ 1. Geographical constraints. Unlike America, which spent much of its history expanding under doctrines such as Manifest Destiny, China’s potential for territorial growth is severely limited by geography. To the west it faces the barren Tibetan plateau and Gobi Desert. To the south the Himalayan mountains present an imposing barrier to the Indian Subcontinent. To the north vast and largely empty grasslands known as the Steppes provide a buffer with Russia. And to the east stretches the world’s largest ocean (there are over 6,000 miles of water between Shanghai and San Francisco). So aside from the hapless Vietnamese who share the southern coastal plain and China’s historical claim to Taiwan, there isn’t much opportunity for wars of conquest on China’s periphery. Ironically, China’s disputes with neighbors over the disposition of minor islands and reefs underscores how little real potential Beijing has for growing its territory the way other powers have.¶ 2. Demographic trends. At 1.3 billion, China has the largest population of any country. However, that population is aging rapidly due to the one-child policy imposed in 1979. The current fertility rate of 1.6 children per woman is well below the level of 2.1 required to maintain a stable population over the long run, and also far below the birthrates seen in other emerging Asian nations. What this means in economic terms, to quote a paper recently published by the International Monetary Fund, is that “within a few years, the working age population will reach a historical peak and then begin a sharp decline.” The vast pool of cheap labor that fueled China’s economic miracle has already begun disappearing, driving up wages and leading some labor-intensive industries to move out. In the years ahead, a growing population of old people will undermine efforts to stimulate internal demand while creating pressure for increased social-welfare spending.¶ 3. Economic dependency. China has followed the same playbook as its Asian neighbors in using trade as a springboard to economic development. According to the CIA’s 2014 World Factbook, exports of goods and services comprise over a quarter of China’s gross domestic product. But even if the low-cost labor that made this possible wasn’t drying up, the reliance of an export-driven economy on foreign markets makes China’s prosperity — per capita GDP is below $10,000 – much more vulnerable than America’s. China has sold over $100 billion more in goods to the U.S. so far this year than it has bought, but that longstanding boost to the Chinese economy won’t persist if the labor cost differential between the two countries keeps narrowing or Washington decides Beijing is a real danger to its interests. China is so dependent on offshore resources, markets and investors to keep its economy growing that it can’t run the risk of really scaring its trading partners.

#### Chinese economic growth doesn’t threaten primacy – several warrants

Beauchamp 14— Zack, World Correspondent at Vox.com, 2014 (“China has not replaced America — and it never will,” The Week, February 13, Available Online at http://theweek.com/articles/450975/china-not-replaced-america--never, Accessed 06-24-2016, AV)

Many people seem to think it's simply a matter of when, not if, China takes the reins of world leadership. How, they think, can America's 314 million people permanently outproduce a population that outnumbers the U.S. by over a billion people?¶ This facile assumption is wrong. China is not replacing the United States as the global hegemon. And it never will.¶ China faces too many internal problems and regional rivals to ever make a real play for global leadership. And even if Beijing could take the global leadership mantle soon, it wouldn't. China wants to play inside the existing global order's rules, not change them.¶ Start with the obvious military point: The Chinese military has nothing like the global reach of its American rival's. China only has one aircraft carrier, a refitted Russian vessel. The U.S. has 10, plus nine marine mini-carriers. China's first homemade carrier is slated for completion in 2018, by which time the U.S. will have yet another modern carrier, and be well on its way to finishing another. The idea that China will be able to compete on a global scale in the short to medium term is absurd.¶ Even in East Asia, it's not so easy for China. In 2012, Center for Strategic and International Studies experts Anthony Cordesman and Nicholas Yarosh looked at the data on Chinese and Taiwanese military strength. They found that while China's relative naval strength was growing, Taiwan had actually improved the balance of air power in its favor between 2005 and 2012 — just as China's economic growth rate, and hence influx of new resources to spend on its military, was peaking.¶ China's equipment is often outdated, and its training regimes can be comically bad. A major part of its strategic missile force patrols on horseback because it doesn't have helicopters.¶ This isn't to deny China's military is getting stronger. It is. And one day, this might require the United States to rethink its strategic posture in East Asia. But Chinese hard power is nowhere close to replacing, or even thinking about challenging, American military hegemony.¶ And look at China's geopolitical neighborhood. As a result of historical enmity and massive power disparities, Beijing would have a tough time convincing Japan, South Korea, and Taiwan that its military buildup is anything but threatening. Consequently, the smaller East Asian states are likely to get over their mutual disagreements and stick it out together in the American-led alliance system for the foreseeable future.¶ To the north and west, China is bordered by Russia and India. China fought each of them as recently as the 1960s, and both are likely to be threatened by any serious Chinese military buildup. Unlike the United States, bordered by oceans and two friendly states, China is surrounded by enemies and rivals. Projecting power globally is hard when you've got to worry about defending your own turf.¶ But what happens when China's GDP passes America's? Well, for one thing, we're not really sure when that will be. Realizing that current growth rates were economically and ecologically unsustainable, the Chinese government cut off the investment spigot that fueled its extraordinary 10 percent average annual growth. Today, China's growth rate is about half of what it was in 2007. One analysis suggests China's GDP may not surpass America's until the 2100s.¶ Moreover, China's GDP per capita is a long way off from matching Western standards. In 2012, the World Bank assessed China's at $6,009; the United States' was $57,749. The per-person measure of wealth matters in that it reflects the government's capacity to pay for things that make its citizens happy and healthy.¶ That's where China's internal headaches begin. The Chinese government has staked its domestic political legitimacy on delivering rapid, massive improvements in quality of life for its citizens. As growth slows, domestic political dissent may rise. Moreover, growth's worst side effect to date — an unprecedented ecological crisis — is also a source of massive discontent. China has 20 of the world's 30 most polluted cities; environmental cleanup costs may hoover up 3 percent of China's GDP. That's throwing 30 percent of its yearly average growth (during the pre-2013 boom years!) down the drain.¶ The mass death and poisoning that follow as severe pollution's handmaidens threaten the very foundations of the Communist Party's power. American University China scholar Judith Shapiro writes that environmental protests — which sometimes "shut down" huge cities — are "so severe and so central to the manner in which China will 'rise' that it is no exaggeration to say that they cannot be separated from its national identity and the government's ability to provide for the Chinese people."¶ That's hardly the only threat to the Chinese economy. China's financial system bears a disturbing resemblance to pre-crisis Wall Street. Its much-vaunted attempt to move away from an unsustainable export-based economy, according to Minxin Pei, may break on the rocks of massive corruption and other economic problems. After listing a slew of related problems, Pei suggests we need to start envisioning a world of "declining Chinese strength and rising probability of an unexpected democratic transition in the coming two decades."¶ But even if this economic gloom and doom is wrong, and China really is destined for a prosperous future, there's one simple reason China will never displace America as global leader: It doesn't want to.¶ Chinese foreign policy, to date, has been characterized by a sort of realist incrementalism. China has displayed no interest in taking over America's role as protector of the global commons; that's altogether too altruistic a task. Instead, China is content to let the United States and its allies keep the sea lanes open and free ride off of their efforts. A powerful China, in other words, would most likely to be happy to pursue its own interests inside the existing global order rather than supplanting it.

#### Primacy endures – any concession are indicative of adaptation, not decline

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Political Science and co-Director of LSE IDEAS, 2010 (“Driving Decline? Economic Crisis and the Rise of China,” London School of Economics and Political Science, Available Online at http://www.lse.ac.uk/IDEAS/publications/reports/pdf/SR003/kitchen.pdf, Accessed 07-01-2016, AV)

Internationally, America’s political leadership endures. Whilst the misadventure in¶ Iraq may have dealt a blow to America’s ability to mount unilateral interventions,¶ the fact remains that where such interventions may be required the world must¶ apply to American power in pursuit of American principles. Obama’s reversion¶ to the type of multilateralism that characterized the earlier parts of Clinton’s¶ administration is therefore less a sign of American decline than it is an indication¶ that this administration recognizes the value of America’s soft and structural power¶ in a way that its predecessor did not, and is seeking to protect and consolidate¶ those assets.¶ Critics such as Robert Kagan argue that this move is accomodationist and that¶ the Obama administration has rejected an enduring tradition in American foreign¶ policy of perpetuating American primacy in favour of seeking to manage what¶ it regards as America’s unavoidable decline. Yet Obama’s engagement of China¶ as a strategic partner, far from breaking with established norms of American¶ diplomacy, stands in line with forty years of Sino-American cooperation going¶ back to Nixon. Rather than being the architect of a post-American world, the¶ President’s strategy is based around the need to restore the legitimacy of American¶ leadership, and in doing so to prevent other powers from seeking or offering an¶ alternative. Gaining Chinese assent for renewed American leadership is the first¶ and most fundamental step in that strategy, which, far from being declinist, seeks¶ to revive American power and standing from its nadir in Iraq.¶ That the United States will be able to recover the kind of multi-faceted dominance it¶ held at the dawn of this century is profoundly unlikely, the dangers of such unipolarity¶ having been exposed to the world by the policies of the Bush administration. Yet¶ to view this as confirmation of American decline is as misguided as it would be¶ to claim that European recovery after the Second World War undermined the¶ power of the United States. International power, influence and leadership is not¶ a zero-sum game, and on the evidence of the first cautious year of foreign policy¶ under Obama, the United States has a President who recognizes that.

#### Growth doesn’t threaten primacy – overinflated growth rates and American resiliency check

Lind 09— Michael, the author of Land of Promise: An Economic History of the United States and co-founder of the New America Foundation, 2009 (“Shocking news: The world is stable!,” Salon, Dec 7, Available Online at http://www.salon.com/2009/12/08/stable/, Accessed 07-01-2016, AV)

The lesson I take from all of this is that the distribution of power and wealth in the world is far more stable than you would think if you listened to our manic-depressive public discourse, where America is always either on the brink of catastrophic decline or unchallengeable global supremacy. The U.S. share of global GDP — a good proxy for power — has fluctuated around a quarter or a fifth since the early 1900s, with the exception of a temporary spike after World War II before the other industrial great powers recovered from it. The Soviet Union never came anywhere near challenging American primacy, and neither did Japan.¶ But now we are told that China will catch up with the U.S. in a couple of decades and dominate the world in the “Asian century.” Maybe, and then again, maybe not. Those projections depend on straight-line extrapolations of the incredibly high Chinese growth rates of the last decade. But there are a lot of problems with those projections that you seldom hear in awed discussions of the rise of China.¶ For one thing, as developing countries become developed countries, their initial high rates of growth slow down. Taking this into account pushes China’s parity with the U.S. further into the future. And this assumes that China’s high growth rates have been real. More and more experts are wondering whether those official growth rates can be trusted. It would not be the first time that a corrupt, authoritarian regime cooked the books. If China’s growth figures have been inflated for a decade or two, then the Chinese economy may be smaller than many believe and the distance it has to travel to catch up with the U.S. is much greater.¶ And even optimistic projections only have China catching up with the U.S. in overall GDP, mainly because it will have a larger, but much poorer, population. Nobody expects China, even under the most favorable circumstances, to catch up with the U.S. and other developed countries in per capita income until the 22nd century, if then. And each of the rest of the “BRICs” (Brazil, Russia, India, China) is dwarfed by the U.S. in GDP.

#### No threat to primacy – lack of intention

CFR 7— Council on Foreign Relations, 2007 (“The Rise of China and the Interests of the U.S.,” CFR, Apr/May, Available Online at http://www.cfr.org/china/rise-china-interests-us/p13455, Accessed 06-24-2016, AV)

While the grinding Iraq war currently dominates the attention of the American public and government, China’s steady rise in economic and political influence is the single event that will reshape international politics in the 21st century. Sooner or later, American officials will turn their attention to confronting this issue. There are two key points to keep in mind. ¶ First, China’s rising influence is natural. It is a country of 1.3 billion people. Until 1800, it comprised a third of world economic output. China’s rapid growth over the last 30 years reflects a return toward this long-term historical equilibrium. China’s development, as well as that of the rest of Asia, will necessarily alter the preeminent geopolitical position that the United States has enjoyed since the end of the Cold War, and that Western nations have enjoyed since the 19th century. The operational question is not whether we like it or not. It is how we adapt. ¶ Second, China’s leaders are not seeking a worldwide confrontation with the United States. Their key priorities are domestic. The single issue that keeps them up late at night is the fear that the growing discontent of rural farmers and migrants could metastasize into a revolutionary force that topples them from power. All of the formidable energies of the Chinese party-state — the tough police controls, the focus on rapid economic development, and the new emphasis on addressing the needs of the rural poor — are directed at warding off such an event.

## Climate Change

### Growth Decreases Climate Change

#### China’s growth is key to its climate control

Henderson et al 16— Geoffrey Henderson, Project Specialist for China FAQs within WRI's Climate and Energy Program, Ranping Song, Developing Country Climate Action Manager @ WRI, Paul Joffe, Senior Foreign Policy Counsel @WRI, 2016 (“5 Questions: What Does China’s New Five-Year Plan Mean for Climate Action?,” World Resources Institute, March 18, Available Online at http://www.wri.org/blog/2016/03/5-questions-what-does-chinas-new-five-year-plan-mean-climate-action, Accessed 06-24-2016, AV)

China plans to develop its economy by more than 6.5 percent per year over the next five years. Under the plan, this growth will increasingly come from services—which will rise from 50.5 to 56 percent of the economy by 2020—and more innovative and efficient manufacturing. These sectors typically have lower air pollutant and greenhouse gas emissions than China’s traditional growth engines, like heavy industry and infrastructure construction.¶ The plan sets out a new round of targets for the carbon and energy intensity of China’s economy. With China’s new target for an 18 percent reduction in carbon-intensity from 2015 levels, we estimate that China will actually reduce its carbon intensity 48 percent from 2005 levels by 2020, exceeding its original target of a 40-45 percent reduction by that year. It will also be a first step toward achieving its Paris Agreement pledge to reduce carbon intensity 60 to 65 percent by 2030. The plan also includes a goal to reduce energy intensity by 15 percent, suggests that China’s most-developed eastern regions will be the first to peak their carbon emissions, and builds on efforts to increase China’s forest stock. ¶ For the first time, the plan includes quantified guidance on energy consumption control, stating that China should limit its energy use to 5 billion tons of standard coal equivalent. As energy is the largest source of carbon emissions, limiting energy consumption is an important component of China’s implementation of its Paris commitments. This guidance seems to be an effort to ensure an upper limit on energy consumption, as there are signs that China’s energy use could be lower than 5 billion tons in 2020. Growth in China’s energy use has slowed in recent years, and China has the potential to achieve its economic goals with less energy through energy efficiency initiatives.¶ The new targets in the plan underscore the fact that the country is no longer merely concerned with the pace of growth, but with the quality of growth. China’s efforts on sustainable development and climate action are driven by strong national interests, such as concern about the impacts of climate change, hazardous air pollution and energy security. There’s also evidence that China’s leaders recognize the economic benefits of clean energy, and that new drivers will be required for the economy to continue its rapid economic growth.¶ To achieve these targets, the plan calls for controlling emissions from energy-intensive industries like power and steel, building a unified national carbon emissions trading market, implementing emissions reporting and verification for key industries, and establishing a green finance system, among other measures. The plan also states that China will be actively involved in the global effort to address climate change, including advancing its own contribution, and will deepen its bilateral dialogue with other countries. These efforts will provide momentum toward stronger climate action both in China and internationally.

#### Chinese economic growth has granted it the resources to manage climate change

Khan 16— Nausheen, first year candidate for the Master of International Development Policy (MIDP) at the McCourt School of Public Policy at Georgetown University, 2016 (“INDIA AND CHINA: BALANCING ECONOMIC GROWTH WITH CLIMATE CHANGE OBJECTIVES,” Georgetown Public Policy Review, February 26, Available Online at http://gppreview.com/2016/02/26/6091/, Accessed 06-23-2016, AV)

China has made some progress in combating some of the problems of climate change. The Chinese government in 2009 had promised to cut carbon intensity by 40 to 45 percent from its 2005 level, by 2020 and Prime Minister Li further announced a new goal to extend the cut to 60-65 percent by 2030. Government data revealed that by the end of 2014, China had reduced carbon intensity by 33.8 percent from its 2005 level, making good on the commitment they made (Buckley, 2015). India has also announced its long-term plan to address global climate change and greenhouse gas emissions. The plan commits to reducing the intensity of fossil fuel emissions 30 to 35 percent from its 2005 level, by 2030, while producing 40 percent of its electricity from non-fossil-fuel sources such as wind, solar power, hydropower and nuclear energy by the same year (Barry and Davenport, 2015). On the international stage, a binding agreement has just passed that sets target levels for greenhouse gas emissions and formulating strategy plans and timelines to achieve those goals. In COP21 that took place in Paris, the U.S. said it would reduce its carbon dioxide (CO₂) emissions as much as 28 percent below 2005 levels by 2025, while China said its emissions would peak no later than 2030. ¶ A new global framework comprising the Sustainable Development Goals, was also passed that addresses the issue of global climate change. This framework, along with other negotiating platforms such as the Green Climate Fund, Financing for Development and World Conference on Disaster Risk Reduction aims to address the allocation of resources, funds or finance packages for developing countries to deal with the consequences of climate change, mitigation actions including details such as the origin of the funds, who will contribute to the funds and who will receive the funds. ¶ As we transition towards more sustainable development, addressing global climate change remains both a challenge and an opportunity. Advanced economies as well as the developing economies need to reevaluate their use of fossil fuels and contributions to greenhouse gas emissions as a means of stimulating economic growth. History has shown that the two are inextricably linked, but as new technologies and better governance emerges, this does not have to be the case going forward.

#### Chinese economic growth helps tackle climate change

Baker 15— Matt, program officer in its Environment Program at the Hewlett Foundation, 2015 (“China Steps Up on Climate Change Leadership: What’s Different This Time,” The Hewlett Foundation, December 7, Available Online at http://www.hewlett.org/blog/posts/china-steps-climate-change-leadership-what%E2%80%99s-different-time, Accessed 06-23-2016, AV)

One hundred eighty countries are meeting in Paris right now to address climate change for the first time since the 2009 United Nations Climate Conference in Copenhagen. The disappointing outcome of the Copenhagen Conference had many causes but no country was more castigated than China. Some of this was scapegoating but China’s role in that conference was ambiguous at best.¶ The Paris meeting is happening against a very different backdrop. The science of climate change is more widely accepted. Low carbon development is not just a hypothetical. Countries have invested billions into clean energy deployment and solar and wind are now cost competitive with fossil fuel in many parts of the world. The plans submitted by over 150 nations for the Paris meeting envision hundreds of gigawatts of growth in clean energy. But the biggest change is the role that China is playing. It’s worth taking a closer look at how far China has come since Copenhagen.¶ To begin with, China has found ways to produce more energy to support its economic growth with less carbon. In the run up to the Copenhagen conference, China was building three coal-fired plants a week. China burned 60 percent of the world’s coal. Last year, China's consumption and production of coal declined for the first time in decades. China’s total coal consumption dropped by 2.9 percent in 2014 and we’ll probably see a 4 percent decline this year. At the same time, China’s wind energy production has increased tenfold since 2009. This year alone, the country will add as much solar energy capacity as currently exists across the entire United States—and China expects to add even larger amounts in the years ahead.¶ Prior to the 2008 recession China’s GDP growth was over 10 percent; even in 2009 it was 8.7 percent. Today’s official GDP growth is lower than 7 percent and most experts believe the real economic statistics are even less robust. This much lower level of GDP growth has been dubbed the “new normal” and could have profound structural effects on the Chinese economy. As a result Chinese policy makers are pushing for “quality” GDP growth that is less energy/carbon intensive. Practically, this involves removing some of the favorable economic incentives enjoyed by state owned heavy industries and ‘rebalancing’ the economy to one that is more geared towards the internal Chinese market. A recent study from the London School of Economics argues that economic structural change will be one of the biggest drivers of emission reductions in China.¶ The day the Paris meeting started, Beijing was in the middle of another round of toxic smog. Since early 2011, the crippling air pollution episodes across the country have led to public outcry, especially among China’s new urban middle class. Public concerns over air pollution and associated health impacts have changed the domestic debates on environmental measures. While it took Great Britain and the U.S. more than thirty years to effectively address air pollution, China has vowed to address this problem in less than five years. Mitigating climate change can be an important co-benefit of addressing air pollution.¶ Copenhagen marked a turning point where China could no longer sit quietly and comfortably in the developing countries camp. In 2009 China overtook the United States and became the world’s largest greenhouse gas emitter and both developing and developed countries pushed China to exert some leadership at the Copenhagen meeting. But in 2009 China was not yet prepared to lead. That’s changed over the last few years, as China has begun to play a much larger role on the world stage.¶ Last but not least, the improved collaboration between China and the U.S. helped create a more constructive atmosphere for the Paris negotiations. Climate change is indeed one of the very few topics in the China-U.S. bilateral relationship where more positive progress is likely. Both President’s Xi and Obama have invested political capital and resources to cultivate the relationship. The fact that China chose to announce its 2030 emission peaking target as part of the bilateral agreement with President Obama last year, rather than on any U.N. occasions, marks the change of China’s climate diplomacy strategy. Earlier this year, again in the U.S., a number of Chinese cities announced the “Alliance of Peaking Pioneer Cities,” committing to “peak” their carbon emissions earlier than 2030.

#### China’s economic growth is key to successful management of climate change

Mahindra et al 15— Anand G. Mahindra, chairman and managing director of Mahindra Group, an Indian multinational conglomerate holding company, TK Kurien, Indian chartered accountant, Zhang Xin, Chinese business magnate, Pan Shidi, Chinese business magnate, 2015 (“Economic growth and climate change,” The Hindu Business Line, December 13, Available Online at http://www.thehindubusinessline.com/opinion/economic-growth-and-climate-change/article7983536.ece, Accessed 06-23-2016, AV)

In India and China, as in many emerging markets, business leaders now recognise the business case for sustainable, low-carbon development. We see the benefit of a shift towards low-carbon, climate-resilient growth, driven by innovation, cleaner energy and greater efficiency. By driving investment in more productive infrastructure, such growth can help us regain our growth momentum, from the years before the global financial crisis.¶ Indeed, the opportunities are immense.¶ Take the example of urbanisation. To date, the expansion of cities in India and China has gone hand-in-hand with strong economic growth. And this urbanisation is a global trend, which will continue over the next several decades, and most especially in developing countries.¶ To give a sense of scale, the world’s urban population is expected to grow by 2.5 billion between now and 2050 — more than a quarter of these will be in India and China. Around 25 million Chinese are currently moving to cities every year — that’s around three times the population of New York or London moving to cities every year.¶ Urbanisation has been, and will continue to be, an engine of emerging market growth. But the present model is posing a threat to the very cities we are creating. Problems such as air and water pollution have been well documented; if unaddressed they can undermine health, quality of life, and productivity.¶ By building low-carbon cities, using smarter electric and mass public transit, by investing in buildings efficiency and a digital, decentralised electric grid, by growing in a planned way, to help people commute and live more safely, we will create more jobs, cut poverty, reduce investment costs, and improve air and water quality. These are cities where people will want to bring their talent. They will be more competitive.¶ But there are challenges to harness this innovation, create these jobs and build these cities. It won’t happen automatically — it will need both public and private sectors working together. Ambitious policy and smart business decisions can accelerate and scale the needed transformations.¶ And as business leaders, we must mobilise capital and divert resources. For this, we will need direction. A new climate agreement, to be reached next month in Paris, can give that direction we need, if governments can agree national and global, short and long-term goals to cut carbon emissions, and a commitment to review and strengthen emissions targets over time.¶ If governments can show that a low-carbon transition has already started and is inevitable, we can show them the innovation, know-how, skills and investment to make it happen, both more swiftly and with greater benefits, both to the economy and climate.

#### Chinese economic growth enables crucial green investments

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But China is among the main hopes for COP21, the climate conference taking place in Paris. The United States and China substituted cooperation for mutual recrimination more than a year ago, when their respective leaders agreed on a climate accord, one of the few bright spots in a troubled bilateral relationship. China has also begun a radical transition from its fossil-fuel dependent and polluting model of growth towards a low-carbon economy.¶ Furthermore, China has promised to peak its emissions by 2030 or earlier, a significant change in attitude since 2009 when the nation not only refused to name a peak year but also blocked others from naming theirs. China has become the world’s largest investor in national renewable energy and the world's leading market for clean-energy finance, attracting US$54.2 billion investment in renewables in 2013, rising to $89.5 billion in 2014. By manufacturing at scale, China has also reduced the global price of solar technologies by roughly two thirds. The country’s wind power capacity, just 126,000 kilowatts in 2005, reached 96 gigawatts in 2014, with installed solar capacity reaching 28 gigawatts.¶ China also announced plans to set up the world’s largest national cap-and-trade scheme by 2017 and installed green ambitions at the center of the 13th Five Year Plan launching in 2016. It pledges to set up a fund to help the poorest adapt to climate change.¶ The beginnings of China’s green revolution were present at COP15: Senior leadership had been well briefed on climate-change impacts and the toxic legacy of three decades of high carbon, highly polluting industrialization. But China was still building massive infrastructure, racing to expand cities designed around roads and cars, and churning out steel and cement, all fueled by the coal-fired power that provided more than 70 percent of the country’s energy.¶ Despite this unpromising panorama, the end of the era of cheap, investment- and export-led growth, the era of high GDP growth at all costs – was in sight. China was close to pricing itself out of the market in cheap goods, in part because of its success: wages had risen and labor, one of China’s competitive advantages, was less abundant, in part because of China’s extreme family-planning policies. The pollution crisis was becoming too great to ignore.¶ Climate and energy began to feature prominently in China’s 11th Five-Year Plan, 2006-2010, which promised “a resource-conserving and environment-friendly society.” The Five-Year Plans are key policy documents, setting out integrated frameworks for China’s economic development. In the course of the 11th plan, the government closed small and inefficient coal plants and reduced energy consumption per unit of GDP by almost 20 percent, saving more than 1.46 billion tons of CO2. ¶ ¶ The need for China’s maturing economy to become more efficient and move up the technology ladder became increasingly urgent. The 12th Five-Year Plan, 2011-2015, was an explicit blueprint for a greener China, with a 7 percent growth target, the promise of a further 16 percent reduction in energy density and, for the first time, a 17 percent reduction in carbon density. At the same time, the plan committed to deliver 11.4 percent of China’s energy with alternatives to fossil fuels by 2016 and 20 percent by 2030, to make major investments in a range of technologies that included electric vehicles, energy saving and environmental protection, new generation information technology, biotechnology, high-end equipment manufacturing, new energy and new materials The plan also directed rebalancing the economy in favor of services and domestic consumption, upgrading industries and stimulating innovation.¶ As part of its strategic economic shift, China aims to become a global leader in low-carbon technologies – supplying low-carbon and energy-efficient technologies to a carbon-contained world. Such ambitions motivate China to secure a strong climate deal in Paris.

#### China’s regulations for green tech have taken off and are becoming a common practice with incentives

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Regulatory reform has paved the way for green-tech opportunities, but economics will determine what succeeds.by Edward BarlowThree decades of torrential economic growth have created significant opportunities for green technology in China. Green technology is a new and imprecisely defined term that is often applied to production, distribution, disposal, and products. Products and processes that use green tech are energy efficient, have a low environmental impact, and are consistent with best practices in environmental monitoring and management standards.The scale of China’s environmental damage, and the burgeoning awareness and commitment to rectify it, will drive demand for commercial solutions for years to come. But with an intense focus on short-term profit, most buyers respond primarily to the price and speed with which technology can deliver value, instead of its environmental impact.The fact that green tech is in play shows that environmental concerns are widespread. Recognizing that China’s development cannot be sustained without environmental reform, senior PRC leaders tasked with boosting the country’s technological development, infrastructure, and employment are also promoting plans for industrial scalability, efficiency, and quality. Identifying and understanding specific investment opportunities and their pros and cons will enable foreign-invested enterprises (FIEs) to play a significant role in China’s green-tech boom, mapping out long-term strategies in a country that rewards long-term commitments.¶ Enforcement of PRC laws often falls to local-level officials. They may interpret a law differently than central-level officials, who tend to understand the law and its intended effects better. Proper implementation of national-level laws at the provincial or county level, where environmental damage is most severe, thus takes time. Last year the PRC State Council elevated the State Environmental Protection Administration to ministerial status to emphasize the importance of environmental issues and give the new ministry the power to codify and enforce environmental regulations. But the Ministry of Environmental Protection’s power is still relatively weak, especially in the face of established pro-growth policies and the resulting mindset of local officials who tend to prioritize economic growth. Green objectives have long been a part of China’s economic plans. But it was not until the 11th Five-Year Plan (FYP, 2006-10) that China set targets for the energy intensity rate at which resources are converted to gross domestic product, resource dependency, and pollution. Though China will fall far short of its energy intensity targets, renewable energy capacity will meet and perhaps exceed targets (see Figure 1). (China aimed to reduce its energy consumption per unit of GDP by 20 percent over the five-year period but has reported annual reductions of about 3 percent.) NDRC announced in May that it would invest ¥3 trillion ($439.2 billion) in renewable energy, electric cars, energy-saving construction materials, and other green technologies between now and 2020.The government’s emphasis and encouragement has made green tech desirable in many industries. Industry is in many instances keen to toe the line and win favor by demonstrating energy efficiency and reducing pollution. The greening of a company has become synonymous with its maturity, and in some sectors “green” is marketed as high status. The government is also using its stimulus package to encourage the use of green tech. Of the State Council’s ¥4 trillion ($585.2 billion) stimulus package, ¥210 billion ($30 billion) has been earmarked for “energy efficiency, emissions reduction, and eco-construction projects.” The package, which reportedly advances the 12th Five-Year Plan for Energy (2010-15) by a year, makes separate provisions for green tech in water conservancy, a smart grid, and the development of transportation, healthcare, and education. Airports, hospitals, and schools will incorporate green building materials under the plan. Thus, green-tech interests could be directly and indirectly served in up to 50 percent of the stimulus.

#### Growth key to green economy – solves warming

Canadian Press 15(The Canadian Press 10/21/15 “Apple Announces Factory Upgrades In Plan To Help China Reduce Air Pollution” <http://www.huffingtonpost.ca/2015/10/21/apple-china-air-pollution_n_8353408.html> )ski

Apple is cleaning up its manufacturing operations in China to reduce the air pollution caused by the factories that have assembled hundreds of millions of iPhones and iPads during the past eight years.¶ The world's most valuable company is working with its Chinese suppliers to produce 2.2 gigawatts of solar power and other renewable energy by 2020.¶ The commitment announced Wednesday represents Apple's latest attempt to prevent the popularity of its devices and digital services from increasing the carbon emissions that are widely believed to changing the Earth's climate.¶ Apple Inc. estimates 20 million metric tons of greenhouse gas pollution will be avoided in China between now and the time all the projects are completed. That's like having four million fewer cars on the road for a year.¶ Panels capable of generating about 200 megawatts of solar power will be financed by Apple in the northern, southern and eastern regions of China, where many of its suppliers are located. The Cupertino, California, company is teaming up with its Chinese suppliers to build the capacity for the remaining 2 gigawatts of renewable energy, which will be a mix of solar, wind and hydroelectric power.¶ Foxconn, which runs the factory where the most iPhones are assembled, is pledging to contribute 400 megawatts of solar power as part of the 2-gigabyte commitment. The solar panels to be built by 2018 in China's Henan Province are supposed to produce as much renewable energy as Foxconn's Zhengzhou factory consumes while making iPhones.¶ Apple has made protecting the environment a higher priority since Tim Cook replaced the late Steve Jobs as the company's CEO four years ago.¶ "Climate change is one of the great challenges of our time, and the time for action is now," Cook said in a statement. "The transition to a new green economy requires innovation, ambition and purpose."¶ Apple just completed projects in China that generate 40 megawatts of solar energy to offset the power required by its 24 stores and 19 offices in the country. All of Apple's data centres, offices and stores in the U.S. already have been running on renewable energy.

### Growth Increases Climate Change

#### Chinese economic growth destroys the environment ― air and water pollution make life unsustainable

Huang 13 ― Yanzhong Huang, Senior Fellow for Global Health at the Council for Foreign Relations, Professor for Seton Hall University, founding editor of Global Health Governance, former research associate of the National Asia Research Program, Ph.D. in political science from the University of Chicago, 2013. (“China: The Dark Side of Growth”, *Yale Global*, June 6th, 2013, Available Online at: [http://yaleglobal.yale.edu/content/china-dark-side-growth Accessed 7-1-16](http://yaleglobal.yale.edu/content/china-dark-side-growth%20Accessed%207-1-16))

Contrary to the image of the China juggernaut, though, multiple crises have struck over the past decade. The sheer size of China’s economy and population only highlights the magnitude of health, environment and social challenges. ¶ Take air pollution. In northern China, readings of particulate matter no more 2.5 microns in size – or PM2.5, the most harmful types of toxic smog – have reached 40 times the maximum level allowed by the World Health Organization. The health consequences of such air pollution are enormous: A 2010 study conducted by the WHO and a group of universities found outdoor air pollution contributed to 1.2 million premature deaths in China, accounting for almost 40 percent of the global total. And according to a recent Deutsche Bank report, China’s air quality will become 70 percent worse by 2025, due to the increases in coal burning and vehicle and industrial emissions, which combined, already contribute to 85 percent of PM2.5 air pollution in China in 2013.¶ Water pollution is another price paid for China’s meteoric economic rise. As a result of the rapid industrialization and poor regulation of the disposal of chemical products, over 70 percent of lakes and rivers in China are polluted, and nearly 40 percent of those rivers are deemed “seriously polluted.” Nearly one-quarter of Chinese lack access to safe drinking water. WHO recently estimated that nearly 100,000 people die annually from water pollution-related illnesses in China.¶ Some 20,000 dead pigs found in the Huangpu River in March added to concerns about food-safety regulations. A 2011 study published by Chinese researchers estimated that more than 94 million people in China become ill annually because of bacterial foodborne diseases, of which, about 8,500 people die. These numbers likely underestimate China’s food safety crisis, because statistics on health conditions caused by tainted food are often excluded. According to a 2011 research conducted by Nanjing Agricultural University, 10 percent of rice sold in China contained excessive amounts of cadmium, and some researchers estimate that as much as 70 percent of China’s farmland is contaminated with toxic chemicals. The widespread production and consumption of toxic chemicals in industrialization and agricultural production have polluted water and air and contaminated farmland, contributing to the emergence of as many as 400 so-called “cancer villages,” areas where rates of cancer are unusually high. Overall, China has had an 80 percent increase in cancer rates compared with 30 years ago.

#### China economic growth destroys the environment ― increase pollution from coal

Zeng 12 ― Tammy Zeng, research graduate at School of International Service, 2012. (“Environmental Degradation as a Result of Economic Development and its Impact on Society”, Spring 2012, Available Online at: <http://auislandora.wrlc.org/islandora/object/1112capstones%3A130/datastream/PDF/view> Accessed 7-1-16)

China’s economic development has meant a surge in energy needs and coal has been China’s predominant source of energy for the last 30 years. The use of coal is popular in China due to its relatively cheap market price and its large supply. In a competitive market the cheapest resources win the largest market share (Yang, 6), and for China the large scale use of coal has helped to fuel China’s growing economy. The breakdown of energy use in 2008 according to the US Energy Information Administration showed that coal made up 71% of total energy consumption, oil made up 19%, hydroelectric power made up 6% and natural gas made up 3%(US EIA). Therefore, China’s major source of energy is coal. In 2009, China consumed an estimated 3.5 billion tons of coal, which made up 46 percent of the world total (US EIA). 13 Coal use is also a popular in China because it is a relatively abundant natural resource within China. China has the third largest coal reserves in the world and since 1989, China was ranked first in its total production of coal (Thompson). Since the Chinese people rely heavily on the use of coal, the government has been actively supporting the coal industry. According to the 12th Five Year Plan, the Chinese government plans to consolidate the coal sector in order to fully utilize the coal resources within China (US EIA). China is slowly increasing its production and consumption of coal and although the market price of coal is inexpensive, the costs associated with coal use to public health and the environment is extremely high. The effects of coal can be measured through air pollution by looking at levels of carbon dioxide, sulfur dioxide, and nitrogen oxide. According to the a National Energy and Strategy Policy Report in 2004, the burning of coal accounts for 70% of CO2 emissions, 90% of sulfur dioxide emissions, and 67% of nitrogen oxide emissions (Grumbine). By 2020, SO2 levels are projected to increase by 150% beyond what Chinese experts describe as the maximum capacity for the entire country (Grumbine), and for NO2, projections to 2020 are expected to increase by 86% (Grumbine). These numbers show that the increasing levels of air pollution will likely cause the acidification of the land, and will result in negative ecological impacts. The connection between economic development and environmental pollution are apparent through the increasing levels of emissions. This is caused both by the increasing level of industrial output and rising living standards. More energy is constantly needed to satisfy the growing economy and this often comes at the cost of the environment.

#### Economic growth is unsustainable ― it collapses the environment and causes run away warming

Qin 15 ― Liu Qin, journalist for China Dialogue, citing Li Lin, WWF China’s Executive Program Director, IMD from Program for Executive Development, D Sc. in Environmental Policy from University of Massachusetts at Lowell, M.A. in Environmental Management and Policy from Lunds University, 2015. (“China pays heavy environmental price for economic growth”, *China Dialogue*, December 22nd, 2015, Available Online at: <https://www.chinadialogue.net/article/show/single/en/8491-China-pays-heavy-environmental-price-for-economic-growth> Accessed 7-1-16)

Over the last half century China’s economy has grown 80-fold, but a huge environmental price has been paid. A recent report from WWF has tracked 2,419 populations of 682 species, finding that from 1970 to 2010 populations of land-dwelling vertebrates fell by 50%. The biggest fall, 97%, was seen in amphibious reptiles.¶ The WWF’s new report, Global Vitality: China 2015, provides an initial calculation of the environmental price China has paid for 50 years of rapid economic expansion. According to the report the world’s ‘biocapacity’ is limited and relatively constant – even under careful management the potential for growth is limited.¶ Biocapacity refers to the capacity of a given biologically productive area to generate a constant supply of renewable resources and to absorb waste or pollution wastes. Growth is judged to be unsustainable if an area, or in this case a country, has an ecological footprint that exceeds its biocapacity.¶ In the half century since 1960, China’s biocapacity doubled, mainly due to the development of agriculture and a limited degree of environmental protection. But over the same period the economy grew 80-fold. ¶ Li Lin, WWF China’s Executive Programme Director, said that in the long term economic growth that outstrips biocapacity and environmental capacity is unsustainable: “How to use limited biocapacity to support a rapidly growing economy is the first problem to be solved if China is to develop an ecological civilization,” Li added, referring to China’s plans for greener growth and to make environmental protection a much more urgent priority at all levels of government.¶ A study found that in 2012 only Tibet and Qinghai had an ecological surplus – biocapacity adequate to meet the needs of local consumption. Beijing would need 21 times its current biocapacity to reach ecological equilibrium.¶ Ecological overload is causing China a range of problems – drought, water shortages, soil erosion, the loss of biodiversity, and increases in greenhouse gas emissions that if unchecked, could lead to runaway climate change.

#### Chinese economic slowdown key to combat climate change

Margolis 15 – Jason Margolis reports on business-and-economics related stories and has been recognized three times for “outstanding reporting” by the Society of Environmental Journalism and has received multiple reporting awards from Northern California journalism associations, 2015 (“How China’s slowing economy could help battle climate change,” December 2, Available Online at <http://www.pri.org/stories/2015-12-02/how-china-s-slowing-economy-could-help-battle-climate-change>, Accessed 06-24-2016, AH)

Last summer though, that model looked like it was crashing to a halt. The Shanghai Stock Exchange plunged sharply, pulling down markets across the globe and creating a panic among investors.¶ It was stunning and scary to many, but economists who follow China’s economic growth weren’t caught off guard.¶ “We always knew that was not going to be sustainable for the very long term,” says [Robert Kahn](http://www.cfr.org/experts/international-economics/robert-kahn/b16114" \t "_blank), a senior fellow for international economics with the Council on Foreign Relations.¶ China’s economy had been growing by 10, 12, even 14 percent in recent years. Over the next few years, Kahn expects China to grow at closer to 5 or 6 percent annually, similar to [forecasts from the International Monetary Fund.](http://www.imf.org/external/pubs/ft/weo/2015/update/02/" \t "_blank)¶ “Now to you and me, that’s still a very good number,” says Kahn. ¶ Many environmentalists also say it’s a better number for the planet.¶ “The take-make-waste model that we have at the moment in our economy — you manufacture something, you throw it away in landfill — [it's not going to be what’s going to work](http://www.carbontrust.com/news/2015/12/cop21-consumers-behaving-badly/" \t "_blank) for the rest of this century. It can’t be, because we're running out resources and it will result in dangerous climate change,” says Jamie Plotnek with[The Carbon Trust](http://www.carbontrust.com/home?gclid=Cj0KEQiAyvqyBRChq_iG38PgvLgBEiQAJbasd7SMXw24E8wfSrYKtJPzenX5vPP30ymXl4NlDx55IHwaAtZ98P8HAQ" \t "_blank), a London-based organization that helps governments and businesses transition to a low-carbon economy. ¶ Climate change has been made more dangerous by how China builds things for the rest of the world.¶ [Follow all of our coverage of the Paris talks and the global climate crisis](http://www.pri.org/tags/climate-change)¶ A team of researchers recently [quantified the environmental costs](http://www.nature.com/nclimate/journal/vaop/ncurrent/full/nclimate2800.html" \t "_blank) — the carbon dioxide emissions — in manufacturing 15 products in China.¶ “And what we show, the difference between making them in Europe and China is large,” says Laura Diaz Anadon, an [assistant professor of public policy](http://belfercenter.ksg.harvard.edu/experts/1441/laura_diaz_anadon.html" \t "_blank) at Harvard’s Kennedy School of Government and visiting[senior lecturer at the University College, London](https://www.ucl.ac.uk/steapp/people/anadon" \t "_blank).¶ “So on average, emissions per unit mass of each product are 4.4 times greater in China than if you make them in the EU.”¶ There are a few key reasons for this. First, China relies heavily on coal as its primary energy source, which produces a lot of greenhouse gasses. (China is [committing to reducing](http://www.brookings.edu/blogs/up-front/posts/2015/11/30-china-coal-consumption-context" \t "_blank) its reliance on that fuel source.) Second, Anadon says China tends to use equipment that is less energy efficient.¶ Now, it would be easy at this point for an environmentalist to say, OK, I’ll just buy less stuff made in China. Easier said than done. Consider your refrigerator — there’s a lot of parts making it go. Anadon’s research focuses on the parts inside made from copper, steel, and iron, the early part of the supply chain.¶ “In terms of the consumer, I think it is actually quite hard to know what you should buy,” says Anadon. “If you were able to find out, this is made from copper made in China, or something like this, than you would know that this product has a component that has a very high carbon intensity.”¶ “It’s an incredibly difficult question for most consumers,” says Jamie Plotnek with The Carbon Trust.¶ He says consumers can minimize their carbon footprint by doing things like buying a smaller car, rather than an SUV. But with most products it’s really up to manufacturers to build smarter. ¶ “And that might involve, for example, a more circular approach to manufacturing where companies will design products that are supposed to be remanufactured,” says Plotnek.¶ “You’re already seeing this now where companies, particularly in the automotive industry, are looking at remanufacturing engines and gear boxes. Then you don’t need to extract the same metals again. You can extract the economic value from that waste so actually it can be better for those companies.”¶ Besides manufacturing smarter, China may also be moving toward manufacturing less, transitioning to a different type of economy.¶ “That transition, or what we’ve been calling a rebalancing, meant shifting away from a manufacturing-driven model to one that was more consumer based, more oriented towards retail and financial services and the like,” says Robert Kahn.¶ Kahn says this transition should take 5 to 7 years and will also reverberate to countries that supply China’s raw materials, places like Brazil and Australia. The climate crisis is also forcing these countries to rethink how their economies grow.¶ Add it all up and the headlines about the next phase of globalization could read very differently.

#### Chinese economic growth causes climate change

Delingpole 15 - James Delingpole, 2015 ("Paris Climate Talks Are Doomed Because China Knows 'Climate Change' Is A Hoax," Breitbart, December 2, Available Online at http://www.breitbart.com/big-government/2015/12/02/paris-climate-talks-doomed-china-knows-climate-change-hoax/, Accessed 6-29-2016, AH)

China, the world’s largest emitter of carbon dioxide, is under intense international pressure to reduce its use of fossil fuels. Although China’s leaders aim to reduce the country’s fossil-fuel consumption to 80% of its energy mix by 2030, they will not forsake national economic growth for the supposed global good. This is because China’s Communist Party knows that to stay in power – its highest priority – it must maintain the economic growth rates that have raised the incomes of much of its population and kept opposition at bay. China’s leaders know that GDP growth is tied to fossil- fuel use.¶ So far so disastrous for the COP21 negotiations. But worse is to come, far worse.¶ Obama and other Western leaders like to pretend that China’s appalling air pollution – the “airpocalypse” afflicting major cities which kills at least half a million a year – gives it a strong incentive to reduce its CO2 levels. But in fact the opposite is true.

#### **China economic growth causes social, environmental and health problems.**

Yanzhong 13 – Huang Yanzhong is a senior fellow for global health at the Council on Foreign Relations, and is also professor and director of global health studies at the School of Diplomacy and International Relations at Seton Hall University, 2013 (“China: The Dark Side of Growth,” Yale Global Online, June 6, Available Online at <http://yaleglobal.yale.edu/content/china-dark-side-growth>, Accessed 06-22-2016, AH)

NEW YORK: Emerging from the ranks of one of the world’s poorest nations to second only to the United States, China is destined for a place in the history books. But history may also record the heavy price paid by the Chinese people and will continue to pay for years to come.¶ China’s steady rise against the backdrop of a sluggish global economy has emboldened Chinese leaders to claim “firm confidence” in their development model. Meanwhile, seemingly robust authoritarian capitalism in China has convinced some American scholars that the model offers a viable alternative to Western-style democracies. According to Asian expert Joshua Kurlantzik, China’s system in many ways poses “the most serious challenge to democratic capitalism since the rise of communism and fascism in the 1920s and early 1930s.” ¶ Contrary to the image of the China juggernaut, though, multiple crises have struck over the past decade. The sheer size of China’s economy and population only highlights the magnitude of health, environment and social challenges. ¶ Take air pollution. In northern China, readings of particulate matter no more 2.5 microns in size – or PM2.5, the most harmful types of toxic smog – have reached 40 times the maximum level allowed by the World Health Organization. The health consequences of such air pollution are enormous: A 2010 study conducted by the WHO and a group of universities found outdoor air pollution contributed to 1.2 million premature deaths in China, accounting for almost 40 percent of the global total. And according to a recent Deutsche Bank report, China’s air quality will become 70 percent worse by 2025, due to the increases in coal burning and vehicle and industrial emissions, which combined, already contribute to 85 percent of PM2.5 air pollution in China in 2013. Water pollution is another price paid for China’s meteoric economic rise. As a result of the rapid industrialization and poor regulation of the disposal of chemical products, over 70 percent of lakes and rivers in China are polluted, and nearly 40 percent of those rivers are deemed “seriously polluted.” Nearly one-quarter of Chinese lack access to safe drinking water. WHO recently estimated that nearly 100,000 people die annually from water pollution-related illnesses in China.¶ Some [20,000 dead pigs](http://blogs.cfr.org/asia/2013/03/13/dead-pigs-in-shanghai-failing-food-safety-regulations/) found in the Huangpu River in March added to concerns about food-safety regulations. A 2011 study published by Chinese researchers estimated that more than 94 million people in China become ill annually because of bacterial foodborne diseases, of which, about 8,500 people die. These numbers likely underestimate China’s food safety crisis, because statistics on health conditions caused by tainted food are often excluded. According to a 2011 research conducted by Nanjing Agricultural University, 10 percent of rice sold in China contained excessive amounts of cadmium, and some researchers estimate that as much as 70 percent of China’s farmland is contaminated with toxic chemicals. The widespread production and consumption of toxic chemicals in industrialization and agricultural production have polluted water and air and contaminated farmland, contributing to the emergence of as many as [400 so-called “cancer villages,”](http://ntdtv.org/en/news/china/2013-02-22/china-s-cancer-villages-acknowledged-by-government-report.html) areas where rates of cancer are unusually high. Overall, China has had an 80 percent increase in cancer rates compared with 30 years ago. ¶ Rapid growth has a price. The economic boom in the past decades has also been associated with a widening wealth gap. According to a report from China’s Southwestern University of Finance and Economics, the Gini coefficient – measured on a scale of 0 to 1 with higher figures associated with greater inequality – was 0.61 in 2010. While it’s not atypical for a fast developing economy to experience increasing inequality, China’s level of inequality is comparable to that of the Philippines and Russia and much worse than that of Japan, the United States and many countries in newly liberalized Eastern Europe. Based on the study of Wang Xiaolu, an economist at the independent National Economic Research Institute in Beijing, analysts have estimated that the wealthiest 10 percent of Chinese earned 65 times that of poorest 10 percent. High inequality has increased the danger for China to tumble into the “middle-income trap” – getting stuck at a level of development that falls short of that of more advanced economies. Worse, the government’s failure to address this social crisis may pit the underprivileged against an entitled minority.¶ The existing sociopolitical crises in China are exacerbated by entrenched corruption. The market-oriented economic transition has created new opportunities and made corruption more pervasive than in previous decades. More than 10 years ago, two eminent Chinese scholars suggested that some 80 percent of the Chinese government officials were corrupt, and the situation has not improved. A conservative estimate by the Carnegie Endowment for International Peace put the cost of corruption in China at about 3 percent of GDP annually, or about $200 billion. Similar to a Greshamite system, which rewards bad behavior, making it rampant and driving out good behavior, China’s corruption has reached a level that touches almost every sector and every member of the society. According to a nationwide survey conducted in October 2011, about 82 percent of responders agreed that China has experienced a significant moral decline over the past decade, and more than half of respondents did not think that complying with ethical standards was a necessary condition for success. In discussing the development paths taken by nations in a March speech delivered in Moscow, President Xi Jinping remarked, “Only the wearer knows if the shoe fits his foot.” As the social cost of development becomes increasingly unbearable, even those who benefited from the rapid economic growth do not think the existing model fits China anymore. When Beijing was engulfed by thick toxic smog in January, an actress born and raised in Beijing wrote: “The flood of emigration and every other type of temptation were not enough to get me to leave this lovable city. Today, this thought keeps circling in my mind: ‘Where will I go to spend my later years?’”¶ The regime’s call for more confidence in the system is also not echoed by China’s new rich, who vote with their feet by choosing to emigrate. According to a report issued by the Bank of China, 14 percent of those with a net worth of 60 million yuan, or $10 million, have already emigrated, and an additional 46 percent favorably regard relocation. Lack of confidence in the system is also suggested by money leaking out of China. Despite China’s restrictions on capital movement, as much as $3.72 trillion left the country over the past decade. ¶ Clearly, the profound sociopolitical problems are threatening China’s great achievements. Until China can address the immeasurable, if not irreversible social costs of development, it would be next to impossible for the nation to take a leadership role in the international system, what it sees as its rightful position. It’s hard to imagine, for example, that the country can regain its greatness if the Chinese people do not have clean air to breathe, safe water to drink, or uncontaminated soil on which to live and farm. Thus, it’s imperative to reexamine the China development model and make addressing domestic social-political problems a priority. Unfortunately, the alluring story of China’s rise can blind one to its dark side.

## Diversionary War

### Growth Causes Diversionary War

#### Xi’s avoided the temptations diversionary war. This will end if the Chinese economy declines.

Blackwill & Campbell ‘16

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One downside to Xi's breathtaking success in consolidating power is that it has left him with near total responsibility for his government's policy missteps on matters ranging from the stock market slowdown to labor market unrest. His visibility on these issues and his dominance of the decision-making process have made him a powerful but potentially exposed leader. With Xi's image and political position vulnerable to China's economic downturn, his country's external behavior may increasingly be guided by his own domestic political imperatives. For the last three years, with China's economy still producing robust growth numbers, such concerns have not fundamentally influenced Xi's foreign policy. Xi has been able to be continuously proactive, and he has used his power to take China's foreign policy in a new direction. He has boldly departed from Deng's injunction to keep a low profile and has reclaimed islands, created international institutions, pressured neighbors, and deployed military assets to disputed regions. Xi's foreign policy has been assertive, confident, and, importantly, a diversified mix of both hard and soft elements. Even as China has taken firm steps on territorial issues, it has used geoeconomic instruments to offer generous loans and investments, and even created new organizations such as the Asian Infrastructure Investment Bank (AIIB).1 By combining inducements with intimidation, Xi has demonstrated the benefits of cooperating with China as well as the economic and military costs of opposing it, especially on issues important to Beijing. Today, China's thirty-year era of 10 percent annual growth appears to have ended, with official statistics placing gross domestic product (GDP) growth below 7 percent, the government reducing its growth target to 6.5 percent, and a number of major banks and respected forecasters arguing the true growth rate is far lower—and will remain below 5 percent for years.3 In light of this deepening economic slowdown, the future trajectory of Xi's external policy is in question. Some elements, including China's geoeconomic policies, will endure; nevertheless, China's foreign policy may well be driven increasingly by the risk of domestic political instability. For this reason, Xi will most probably stimulate and intensify Chinese nationalism—long a pillar of the state's legitimacy—to compensate for the political harm of a slower economy, to distract the public, to halt rivals who might use nationalist criticisms against him, and to burnish his own image. Chinese nationalism has long been tied to foreign affairs, especially memories of foreign domination and territorial loss. For example, Xi may be less able or willing to compromise in public, especially on territorial issues or other matters that are rooted in national sentiment, for fear that it would harm his political position. He may provoke disputes with neighbors, use increasingly strident rhetoric in defense of China's national interests, and take a tougher line in relations with the United States and its allies to shift public focus away from economic troubles. He may also turn to greater economic protectionism. These changes come at a time when Xi's tight control of the decisionmaking process has made it harder for U.S. policymakers to anticipate China's next moves. Familiar interlocutors at the State Council and Foreign Ministry, who once provided much-needed insight into an often mysterious policymaking process, are no longer central within it. As the shroud of secrecy surrounding Chinese decision-making thickens, what remains clear is that dealing with China will require a more nuanced understanding of the man with singular control over the country's foreign policy future. It will also necessitate an appreciation of the interaction between his internal political requirements and his foreign policy agenda. Finally, it will demand a clear-eyed acceptance of the fact that Xi has ushered in a new era of Chinese regional and global diplomacy, one that will push the West to evaluate its overall approach to the People's Republic of China (PRC) and to the powerful but exposed leader who makes its foreign policy.

#### Chinese econ growth checks nationalist flares that escalate territorial disputes. Checks won’t solve.

Blackwill & Campbell ‘16

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Economic growth and nationalism have for decades been the two founts of legitimacy for the Communist Party, and as the former wanes, Xi will likely rely increasingly on the latter. Since 1989, the party has deliberately and carefully laid the foundation for such a strategy through patriotic education, censorship, government-backed protests against Japan, and relentless news and popular media that have reinforced a nationalist victimization narrative. As a powerful but exposed leader, Xi will tap into this potent nationalist vein through foreign policy, burnishing his nationalist credentials and securing his domestic position from elite and popular criticism, all while pursuing various Chinese national interests. For example, an emphasis on territorial disputes and historical grievances could partially divert attention from the country's economic woes and arrest a potential decline in his public approval; in contrast, a visible setback or controversial concession on such issues could undermine his standing with Chinese citizens and party elites. On economic matters, concerns over growth and employment may lead China to become increasingly recalcitrant and self-interested. In the future, Xi could become more hostile to the West, using it as a foil to boost his approval ratings the way Putin has in Russia. Already, major Chinese newspapers are running articles blaming the country's economic slump on efforts undertaken by insidious "foreign forces" that seek to sabotage the country's rise. Even if Xi does not seek more combative relations with the West, he will nonetheless find it difficult to negotiate publicly on a variety of issues, especially when nationalist sentiment runs high. On territorial matters, Xi will be unwilling or unable to make concessions that could harm his domestic position, and may even seek to escalate territorial disputes against Japan or South China Sea claimants as a way of redirecting domestic attention away from the economic situation and burnishing his nationalist record. A dangerous but unlikely possibility is that Xi may even be tempted to use military force to instigate limited conflicts against the Philippines, Vietnam, or Japan. Given that Japan is a prominent target of China's propaganda and media, and that memories of Japan's brutal occupation are still influential, ties between China and Japan may continue to worsen.

#### Econ decline forces Xi to start diversionary wars.

Haass ‘16

Richard N. Haass – President, Council on Foreign Relations internally quoting Blackwill and Campbell. Robert Blackwill is a senior fellow for U.S. foreign policy at the Council on Foreign Relations (CFR). Blackwill was the Belfer lecturer in international security at Harvard Kennedy School. During his fourteen years as a Harvard faculty member, he was associate dean of the Kennedy School, where he taught foreign and defense policy and public policy analysis. He also served as presidential envoy to Iraq and was the administration's coordinator for U.S. policies regarding Afghanistan and Iran. Kurt M. Campbell is the chair and chief executive officer of the Asia Group, LLC. He also serves as chairman of the Center for a New American Security, is a nonresident fellow at Harvard Kennedy School's Belfer Center for Science and International Affairs. “Xi Jinping on the Global Stage” - Council Special Report No. 74 - February 2016 – pdf can be accessed at: http://www.cfr.org/china/xi-jinping-global-stage/p37569?cid=otr-marketing\_use-Xi\_Jinping\_CSR

This Council Special Report by Robert D. Blackwill and Kurt M. Campbell, two experienced practitioners and long-time observers of American foreign policy, is based on a straightforward premise: Xi Jinping is the most powerful Chinese leader since Deng Xiaoping, one who has taken a number of steps to limit collective leadership and the political clout of the army. But the authors also argue that this same concentration of power is a double-edged sword, one that leaves President Xi exposed and potentially vulnerable to internal political challenge. The vulnerability comes from several sources, but none is more critical than a slowing economy. The trajectory of the Chinese economy is the subject of active debate among outside experts, but there is consensus that China is experiencing a substantial slowdown and will not be able to regain the high rates of growth that characterized the last several decades. The report suggests the possibility of greater political repression at home if there are signs the economic slowdown is triggering political instability. But the authors go on to note that Xi may as well be tempted to turn to foreign policy to redirect domestic attention away from a lagging economy, in the process burnishing his nationalist credentials. They anticipate continued Chinese pressure on neighbors in the East and South China Seas and are skeptical China will use the leverage it has over North Korea or assume more than a limited role in global governance. They do, however, expect China to continue to engage in selective institution building. Overall, they foresee a Chinese foreign policy that is assertive, coordinated, and diversified, one that constitutes a significant challenge to U.S. interests.

#### Chinese economic decline causes diversionary war.

Lu 15 – Henry Lu, 2015 (“’Deeper’ Chinese Motivations in the South China Sea,” Fox & Hedgehog, November 4, Available Online at <http://www.foxhedgehog.com/2015/11/deeper-chinese-motivations-in-the-south-china-sea/>, Accessed 06-24-2016, AH)

Mainstream media [points](http://www.economist.com/news/asia/21640403-two-case-studies-disputed-sea-oil-troubled-waters) to oil as the primary motivator for Chinese assertiveness in the South China Sea. While oil is certainly a compelling interest, it by no means represents the only one. According to U.S. [estimates](http://www.nytimes.com/2014/10/29/business/energy-environment/beijing-zeroes-in-on-energy-potential-of-south-china-sea.html), the South China Sea contains 11 billion barrels of oil, or a fraction of one percent of the world’s reserves. Supposing China acquires the entire South China Sea resource today, explores, and develops it in a few years, and pumps the sea dry in a decade and a half, China’s annual revenues at today’s prices would be about $22 billion a year, or 0.3% of GDP. The scale of resources at stake suggests that oil is not the sole motivation driving China to adopt policies that risk provoking war with its neighbors and the United States. Indeed, when the price of oil took a nosedive in 2014, China’s assertiveness in the South China Sea increased. What deeper Chinese motivations might be at play?¶ Academics suggest that China’s growing aggression is driven in part by considerations for domestic politics and in part by the need to assert greater power on the international stage. The first idea is that mounting economic challenges and corruption are encouraging the Chinese government to divert away domestic attention. This follows the “[diversionary war](http://www.sup.org/books/title/?id=18173)” thesis, which suggests that a government facing domestic discontent resort to foreign aggression in order to unite the people and bolster its legitimacy. The second idea is that as China’s economy has grown, so too have its interests in asserting power. This follows from the “offensive realism” theory, which suggests that China’s economic miracle means it can now abandon former leader Deng Xiaoping’s axiom: “hide your strength, bide your time.”¶ How do these ways of thinking inform our analysis of the South China Sea? Since political interests are driving much of China’s foreign policy in the South China Sea, it would be useful to examine Chinese political trends in forecasting its future behavior. The single most significant change affecting Chinese politics today is economic, where growth is declining and debt is mounting. Chinese officials acknowledge that China’s export and debt-driven growth model is unsustainable and are attempting to rebalance the Chinese economy towards domestic consumption. The political repercussions of this economic transition almost certainly impact Chinese foreign policy in the South China Sea.¶ According to the diversionary war thesis, economic turmoil creates incentives for officials to channel domestic frustration into foreign aggression. This is particularly applicable to China because the Chinese government has a lot at stake when it comes to economic performance. After reforms in the late 1970s largely swept away Marxist principles, the Communist Party relied increasingly on China’s economic miracle for its legitimacy. Now that the era of unprecedented growth is waning, the Chinese government is inclined to promote nationalism and diversion through external means, and the South China Sea is an obvious target. The second, offensive realism approach leads to an opposite conclusion. Since China is entering a major and uncertain economic transition, it is reverting to an old strategy: “hide your strength, bide your time” while tinkering with the economy. The impact of China’s economic transition in the short-term therefore depends on a balance between two opposing tendencies.

#### Chinese economic decline causes war

Carpenter 15 – Ted Carpenter, Senior fellow for defense and foreign policy studies at the Cato Institute, also served as Cato’s director of foreign policy studies from 1986 to 1995 and as vice president for defense and foreign policy studies from 1995 to 2011, 2015 (“Could China’s Economic Troubles Spark a War?” The National Interest, September 6, Available Online at <http://nationalinterest.org/feature/could-chinas-economic-troubles-spark-war-13784>, Accessed 06-22-2016, AH)

Global attention has focused on [the plunge in the Shanghai stock market](http://nationalinterest.org/feature/2015-the-year-china-goes-broke-13749) and mounting evidence that [China’s economic growth is slowing dramatically](http://www.bloomberg.com/news/articles/2015-07-17/how-china-s-slowdown-is-worse-than-you-think). Moreover, the contagion appears to be spreading, characterized by extreme volatility and alarming declines in America’s own equity markets. Those worries are compounded because there always have been doubts about [the accuracy of Beijing’s official economic statistics](http://money.cnn.com/2015/07/15/news/economy/china-gdp-economic-statistics/). Even before the current downturn, some outside experts believed that Chinese officials padded the results, making the country’s performance appear stronger than it actually was. If China is now teetering on the brink of recession, the political incentives for officials to conceal the extent of the damage would be quite powerful.¶ The focus on the possible wider economic consequences of a severe Chinese economic slowdown is understandable, since the ramifications could be extremely unpleasant for the U.S. and global economies. But we should also be vigilant about how such economic stress might affect Beijing’s diplomatic and military behavior. It is not unprecedented for a government that feels besieged to attempt to distract a discontented public by fomenting a foreign policy crisis. In Henry IV, Shakespeare pithily described that process as the temptation to “busy giddy minds with foreign quarrels.”¶ China’s leaders likely feel increasingly uncomfortable. The implicit bargain that has been in place since the onset of market-oriented reforms in the late 1970s has been that if the public does not challenge the Communist Party’s dominant political position, the Party will deliver an ever-rising standard of living for the people. [The bloody Tiananmen Square crackdown in 1989](http://nationalinterest.org/feature/tiananmen-could-it-happen-again-10578) was a graphic reminder of what happens if the Party’s position is challenged. However, until now, the economic portion of the bargain seemed secure, characterized by breathtaking, often double digit, rates of growth. It is uncertain what happens if the Party can no longer maintain its part of the implicit bargain, but it is likely that a dangerous degree of public discontent will surface.¶ Beijing might refrain from deliberately provoking a major foreign policy crisis, since the Chinese economy depends heavily on export markets, and access to those markets would be jeopardized by war. However, the need to preserve and strengthen national unity and distract the public from mounting economic troubles is likely to impel Chinese leaders to adopt very hardline policies in at least three areas. And all of those situations entail the danger of miscalculations that could lead to war.¶ One issue is the South China Sea. Beijing has made extraordinarily broad territorial claims that encompass some 90 percent of that body of water. China is pressing its claims with air and naval patrols and the building of artificial islands. Those policies have brought Beijing into acrimonious disputes with neighbors such as Vietnam and the Philippines, which have rival territorial claims, and with the world’s leading maritime power, the United States, which resists any manifestation of Chinese control over the South China Sea and the crucial commercial lanes that pass through it. The conditions are in place for a nasty confrontation. Chinese leaders have already stressed the country’s alleged historical claims to the area, and made it clear that it will not tolerate being subjected to humiliation by outside powers. Such arguments are designed to gain domestic support by reminding the Chinese people of the country’s long period of weakness and humiliation in the 1800s and early 1900s.¶ A second issue is Taiwan. Beijing has long argued that Taiwan is rightfully part of China and was stolen from the country in the Sino-Japanese war in 1895. Although Chinese leaders have exhibited patience regarding the issue of reunification, relying in large measure on growing cross-strait economic ties to entice Taiwan to eventually accept that outcome, Beijing has also reacted very sharply whenever Taiwanese officials have pushed an agenda of independence, as during the administration of Chen Shui-bian from 2000 to 2008. The danger or renewed confrontation is rising, since public opinion polls indicate that the nominee of Chen’s old party, the pro-independence Democratic Progressive Party, will be Taiwan’s next leader.¶ [A new crisis in the Taiwan Strait would be extremely serious](http://nationalinterest.org/feature/war-the-taiwan-strait-would-china-invade-taiwan-11120), since the United States has obligated itself to consider any Chinese efforts at coercion as a “grave breach of the peace” of East Asia. Yet there is little doubt that there would be widespread domestic support on the mainland for a stern response by the Beijing government to a Taiwanese attempt to enhance its de-facto independence. Indeed, there might be more political danger to the regime if it did not take a strong stance on that issue.¶ The third possible arena for crisis is the East China Sea. China is increasingly adamant about its claims to the Diaoyu/Senkaku islands, which are under Japanese control. From China’s perspective, those islands were stolen by Imperial Japan at the same time that Tokyo took possession of Taiwan following the 1895 war. And ginning up public anger against Japan is never difficult. China just finished celebrating the 70th anniversary of the end of World War II, which is touted in China as “[the Chinese People’s War of Resistance Against Japanese Aggression and the World Anti-Fascist War](http://www.xinhuanet.com/english/special/jnkzsl/index.htm).” Recalling Japan’s invasion of China, and the resulting atrocities, was a prominent theme of the various commemorative events. But the animosity is not based solely on historical grievances. Anger at Japan over the ongoing East China Sea dispute and other matters has already produced anti-Japanese riots in Chinese cities, characterized by attacks on Japanese businesses and automobiles. There is a powerful incentive for Chinese leaders to take an uncompromising stance on the Diaoyu/Senkaku feud, confident that the Chinese people will back such a stance.¶ All of this suggests that the United States and its allies need to proceed cautiously about dealing with China, especially on these three issues. Now is not the time to press a Chinese leadership that likely feels beleaguered by the country’s economic woes. The last thing we should do is give those leaders further temptation to distract the Chinese people with a foreign policy confrontation. Such a strategy entails the grave risk of miscalculation and escalation, and that would be a tragedy for all concerned.¶ [Ted Galen Carpenter](http://www.cato.org/people/ted-galen-carpenter), a senior fellow at the Cato Institute and a contributing editor at The National Interest, is the author of ten books and more than 600 articles on international affairs. His latest book, Perilous Partners: The Benefits and Pitfalls of America’s Alliances with Authoritarian Regimes, will be published by the Cato Institute later this month.¶ Image: Wikimedia Commons[/Allen Zhao](https://commons.wikimedia.org/wiki/File:PLAAF_Chengdu_J-10AY.jpg)

### A2: Diversionary War

#### Chinese diversionary war will never happen.

Levi & Economy ‘16

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But Beijing Is Unlikely to Wage War if the Economy Crashes By the same token, analysts should probably discard the notion that a crash of the domestic economy would provoke a Chinese military adventure abroad in order to distract Chinese people from upheaval at home. This "wag the dog” scenario may gain currency with screenplay writers and conspiracy buffs, but it is not borne out by history. Although it is true that strife-torn countries often get embroiled in external wars, it is rarely because their leaders set out to generate a diversionary activity for their restive populace. Indeed, most workshop participants argued that if China were beset by an acute internal crisis, the Communist Party would almost certainly refocus its energy and resources inward. The leadership and its security apparatus, including components of the military, would have their hands full protecting against social instability, tamping down the activities of Uighur and Tibetan separatists, and maintaining the cohesiveness of the party itself. To launch a foreign war in an atmosphere of domestic public grievance would be particularly dangerous for Beijing. If China sustained a defeat at the hands of the Japanese or U.S. navy, the leadership would compound its reputation for economic mismanagement with one for military ineptitude—a potentially lethal cocktail for the ruling party.

#### Diversionary war theory false –Japan

Frej 11— Willa, Pierson College. She writes about China’s foreign policy as she works on her senior essay discussing the topic, 2011 (“Update: Sino-Japanese Tensions,” The Yale Globalist, Feb 23, Available Online at http://97.74.206.199/tyglobalist/onlinecontent/blogs/update-sino-japanese-tensions/, Accessed 06-23-2016)

Furthermore, leadership transitions are of note in both China and Japan, making it difficult to generalize about hawkish or conciliatory behavior on either side, since diplomacy currently consists of extensive calculations about both present and future leadership. The diversionary war theory posits that states pursue a more aggressive foreign policy when faced with domestic vulnerability. It seems as though this is what is occurring between the Chinese and the Japanese.¶ In fact, Abe’s newfound hawkish position is surprising, given his much less hostile stance on China in the past. In 2006, he was the first Japanese prime minister to pick Beijing as the first stop of foreign visits instead of the United States. Yet when considering the heated nationalism that has also overtaken the Japanese in reaction to the Senkakus, Abe’s insistence on keeping the islands in Japanese hands falls into the diversionary war line of reasoning.¶ But the main question on everyone’s minds is what Xi Jinping is going to bring to the table on November 8, the date of the Chinese leadership transition. According to a Pew Global Attitudes Project survey, Chinese people are more hostile towards rival nations than ever before. Will fresh leadership therefore adhere to the demands of the populace? Along this line of reasoning, China will react to internal turmoil with a continual display of hostility towards Japan. What this “hostility” will specifically entail is unclear. At the very least, China will most likely continue to send patrol boats to encroach on Japanese waters.¶ The theory of diversionary war cannot, however, serve to predict the future of Sino-Japanese relations on its own. It would fail to explain China’s history of regional cooperation in response to territorial disputes. More importantly, national interests – namely economic and balance of power interests – are at stake. On the one hand, China fears the loss of strategically significant territory. Admittedly, these islands are nothing but a cluster of rocks in the middle of the East China Sea, but control over this territory grants important access to fisherman and supposed untapped oil reserves. So while it is clearly in China’s best interest to fight for some level of sovereignty over the Diaoyus, a diplomatic shakeup between China and Japan would be an economic disaster. China is now Japan’s largest trading partner, and a prolonging of the territorial dispute will seriously jeopardize bilateral trade.¶ Chances are slim that a full-blow military escalation will occur. The question, therefore, is how long leaders on both sides will play the hard line and delay constructive diplomacy in order to save face.

#### No diversionary war in China – leaders won’t risk it

Fravel 10— M. Taylor, Department of Political Science, Massachusetts Institute of Technology, 2010 (“International Relations Theory and China’s Rise: Assessing China’s Potential for Territorial Expansion,” International Studies Review, Available Online at http://taylorfravel.com/documents/research/fravel.2010.ISR.china.expansion.pdf, p. 521, Accessed 06-30-2016, AV)

One way in which nationalism may interact with the parochial interests of domestic¶ political actors would be to provide China’s leaders with a rationale or justifi-¶ cation for diversionary action. This source of expansion follows the conventional¶ wisdom of ‘‘diversionary war,’’ the theory that national leaders will initiate or¶ escalate a dispute to distract or rally a restive and dissatisfied population (Levy¶ 1989). In this case, the use of force in an outstanding territorial dispute or the¶ initiation of new claims could provide China’s leaders with an issue that can be¶ tapped to mobilize society for diversionary goals.¶ The diversionary war argument is hard to assess because it seems so intuitive¶ and is a phenomenon that might always occur. China appears prone to diversion,¶ as the authoritarian state’s legitimacy depends on economic development¶ and broad but ill-defined appeals to nationalism. Amid the rise of popular¶ nationalism and growing discontent with the social upheaval associated with¶ reform, China has been described as ‘‘prone to muscle-flexing’’ in its foreign¶ policy to deflect attention from social unrest (Shirk 2007:62).¶ Nevertheless, quantitative research shows no systematic relationship between¶ past episodes of domestic unrest in China and involvement in militarized interstate¶ disputes, whether over territory or other issues (Johnston 1998). Moreover,¶ in the 1990s, actions that might be seen as diversionary, such as the public demonstrations¶ following the bombing of the Chinese embassy in Belgrade in 1999¶ or the 2005 protests against Japan, have been reactive in nature (Brittingham¶ 2007). China’s leaders mobilized society in response to external challenges that¶ questioned their domestic credibility as leaders, not in response to domestic¶ discontent from which attention needed to be deflected. Indeed, although the¶ sources of discontent are widespread and constant, large anti-foreign demonstrations¶ have been rare and infrequent. Instead, China’s leaders reflect a nuanced¶ understanding of the potential pitfalls of mobilizing nationalism and the dangers¶ of unleashing a genie of public opinion that may be impossible to contain¶ (Downs and Saunders 1998 ⁄ 99).

#### Diversionary war won’t happen in China – cooperation is more likely

Fravel 05— M. Taylor, Department of Political Science, Massachusetts Institute of Technology, 2005 (“International Security,” International Studies Review, Fall, Available Online at http://www.mitpressjournals.org/doi/pdf/10.1162/016228805775124534, p. 49-51, Accessed 06-30-2016, AV)

To explain why and when states might compromise in territorial disputes,¶ this article presents a counterintuitive argument about the effects of domestic¶ conflict on foreign policy. Diversionary war theory asserts that leaders facing¶ domestic strife provoke conflicts with other states just to improve their¶ position at home. By contrast, I argue that internal conflict often creates conditions¶ for cooperation, producing a “diversionary peace” instead of war. Embattled¶ leaders are willing to cooperate with other states in exchange for¶ assistance in countering their domestic sources of insecurity. In territorial disputes,¶ leaders are more likely to compromise when confronting internal threats to regime security, including rebellions and legitimacy crises. Facing¶ these types of internal threats, leaders are more likely to trade territorial concessions¶ for assistance from neighboring states, such as suppressing rebels or¶ increasing bilateral trade.¶ Regime insecurity best explains China’s many attempts to compromise in its¶ territorial disputes. Most of China’s disputes are located on its long land border¶ adjacent to frontier regions where the authority of the regime has been¶ weak. Ethnic minorities dominate these frontiers, which make up more than¶ half of the country and were never governed directly before 1949. During periods¶ of regime insecurity, especially in the event of ethnic unrest near its international¶ boundaries, China’s leaders have been much more willing to offer¶ concessions in exchange for cooperation that strengthens their control of these¶ areas, such as denying external support to separatists or affirming recognition¶ of Chinese sovereignty over these regions.¶ China’s willingness to compromise in territorial disputes carries several implications¶ for international relations theory. First, China’s cooperative behavior¶ as an authoritarian state underscores the importance of moving beyond democracy¶ in the study of regime type and cooperation.14 Second, China’s¶ compromises question the role of reputation building in explaining the intractability¶ of territorial disputes between states. China offered many concessions¶ despite clear incentives that its simultaneous involvement in multiple conflicts¶ created to signal toughness and resolve, not conciliation.15 Third, China’s behavior¶ challenges existing arguments about the foreign policies of revolutionary¶ states.16 In China, radical politics at home failed to produce assertive or¶ belligerent foreign policies in most of its territorial disputes.17 Fourth, China’s¶ cooperative response to regime insecurity helps to explain a key puzzle for the¶ diversionary war hypothesis: why many periods of domestic strife fail to produce crisis escalation and the use of force.18 Violence is less common than diversionary¶ war theory predicts because, under certain conditions, leaders can¶ have strong incentives to pursue cooperation instead of war to strengthen their¶ domestic political security.

## Global Economy

### Growth Helps Global Economy

#### China’s growing economy have brought millions out of poverty

Birrell 15(Ian Birrell is a former deputy editor of the Independent and worked as a speechwriter for David Cameron during the 2010 election campaign , 10:00PM BST 20 Oct 2015 “China’s economic growth is a force for good” <http://www.telegraph.co.uk/news/worldnews/asia/china/11943879/Chinas-economic-growth-is-a-force-for-good.html> )ski

Yet the remarkable rise of China should be welcomed. Last year, on one measure, it became the world’s biggest economy, overtaking the United States (which had held the title for 142 years). Thus China regained the position it has held for most of human history; indeed, early in the 19th century it was responsible for an estimated one-third of global output. This, however, is not a zero-sum game – and its return to the top should be seen as a sign of global progress and opportunity. When the last Chinese president came to Britain on a state visit – in 2005 – his country had the smaller economy. Now his successor Xi Jinping presides over an economy triple the size of ours – but our decline is relative, not real. China’s growth does not come at our expense. Over the first decade of this century, while China grew at 10 per cent a year, the British economy expanded by a healthy 15 per cent overall. That phenomenal pace of change in China pulled almost 700 million people out of extreme poverty in three decades, an astonishing feat.Rapid growth has been seen also in many other Asian and African countries, the twin motors of capitalism and consumerism pushing millions more people from poverty to prosperity. As the British economist Charles Kenny showed in The Upside of Down, in a globalised world this benefits everyone. Poor countries becoming richer, healthier and better educated buy more, make more and innovate more. So they boost progress and wealth around the planet with bigger markets, business breakthroughs, medical innovations and technological advances. It is not just about newly rich Chinese shoppers buying designer clothes in London and Paris. Chinese goods are assembled with parts often designed and made in the West. They churn out cheap motorcycles that help children get to school in poorer parts of Asia and cheap mobile phones that have transformed life in Africa in fields from agriculture to medicine. Some innovations then feed back to wealthier countries, such as India’s inexpensive medical devices developed for rural clinics and Kenya’s mobile money transfer system.

#### China advances the world econ through trade - Including turning developing counties into power houses

UN 15(The Magazine of the United Nations May 2015“Is Democracy a Pre-Condition in Economic Growth? A Perspective from the Rise of Modern China” http://unchronicle.un.org/article/democracy-pre-condition-economic-growth-perspective-rise-modern-china/ )ski

As one of the countries with the strongest economic growth, and the largest economy in the world, China’s economic phenomenon attracts not only the mainland Chinese themselves, as illustrated in Fig. 1, despite a drop in the number of Google searches from 2004 to 2015. Many Australians, Americans and British have had persistent interest in the economic growth in China during this period (the fact that other countries are not included in Fig. 2 indicates that the number of searches originating in them is too small to be included in the graph as compared to the top three nations). Residents of such urban centres, as London and Singapore show the strongest interests in economic growth in China (Fig. 3). Residents of Hong Kong, Singapore, Australia and India show the largest regional interest in Chinese GDP growth (Fig. 5). In recent years, many developing countries in Asia recorded high economic growth and have become global economic engines. China is no exception and has become the new powerhouse in global economic development during the pre- and post-global subprime financial crisis and eurozone debt crisis. The huge market demand affects the global economy through commodity trade and investments.

#### China’s growth has spilled over to the rest of the world

Rastello 10  (Sandrine Rastello Bloomingburg December 9, 2010 — 2:46 PM EST “China’s Economic Growth Lifts Rest of World, IMF Study Says “ <http://www.bloomberg.com/news/articles/2010-12-09/china-s-growth-has-spillover-effect-lifting-rest-of-world-imf-study-says> )ski

Economic data suggest that a 1 percentage point increase in China’s growth rate sustained over five years means an extra 0.4 percentage point of growth for the rest of the world, two experts at the International Monetary Fund said after studying figures for the past two decades. Analysis of a longer time period -- 1963-2007 -- suggests that the spillover effect of China’s growth has increased over time. Geographic distance seems to affect the strength of the spillover effects, with a stronger impact the closer a country is to China,” Vivek Arora and Athanasios Vamvakidis wrote in the IMF’s Finance and Development magazine December issue. “But the estimates also suggest that the role of distance has diminished over time.”¶ The pace of economic growth in China has an impact on the rest of the world, first through trade channels and then through capital flows, tourism and business confidence, the two authors said. The magazine was posted on the IMF website today.¶ “A few decades ago, China’s expansion influenced growth only in neighboring countries; it now affects growth all over the world,” the two IMF experts wrote. The size of the impact “has increased from negligible levels until about two decades ago to a sizeable impact more recently.”¶ China’s economic growth slowed to a 9.6 percent annual pace in the third quarter from 11.9 percent in the first three months of this year. Even as the expansion moderates, China is set to overtake Japan this year to become the world’s second-biggest economy

#### China is crucial to global economy – world trade, foreign investment, financial flows

Lyons 9 (Dr. Gerard Lyons is chief economist and group head of global research, Standard Chartered Bank. July 24, 2009 “ China and the world Economy” <http://blogs.reuters.com/great-debate/2009/07/24/china-and-the-world-economy/> )ski

China will play an important role in this process. It has already helped regional integration, building on the Chiang Mai Initiative, and it has engaged in a number of bilateral swap arrangements with countries around the world.Another important global impact is the importance of China in helping world trade, investment and financial flows. Over the last decade the three words seen most regularly were “Made in China”. Over the next decade the three most common words might be “Owned by China”. China’s stock of overseas direct investment is one-thirtieth of that of the USA. The stock of foreign direct investment in China far exceeds the total amount China has invested overseas. Last year, China’s investment overseas was $50 billion. Now this is changing. Chinese firms are taking advantage of a strong renminbi and of strategic backing from Beijing to expand overseas purchases.The impact of China on global commodities is already evident. China’s rapid growth and its strategic needs saw it accumulating increasing amounts of commodities. For instance, it accounts for about one-third of global demand for aluminum and copper, and as much as 38 per cent for zinc. In the first half of this year there has been stockpiling by China of a range of commodities. This stockpiling could be explained by many factors, including the strength of the Chinese yuan and the weakness of commodity prices. In future years one would expect this to continue. And it will not just be metals. Demand for food and soft commodities will be important. As incomes rise, food tastes will change.Furthermore, 28 per cent of Europe’s land is arable, while this figure is 19 per cent for the U.S., but for China it is only 10 per cent. As a result, China will not only buy commodities, but it will also invest in countries producing commodities. This will reinforce the new corridors of increasing trade and investment flows between China and Africa, Latin America and the Middle East.

### A2: Growth Helps Global Econ

#### Chinese economic growth slowdown doesn’t spill over to world – Japan proves

Tan and Barnato 16— Huileng, writer at CNBC.com, covering a broad range of topics in Asia, Katy, reporter and editor at CNBC.com in London, where she tracks international business, economic and political news, 2016 (“Why a China slowdown will not hurt that much,” CNBC, Jan 15, Available Online at http://www.cnbc.com/2016/01/15/china-slowdown-will-hurt-but-not-end-of-it-all-hsbc.html, Accessed 06-23-2016, AV)

After three decades of explosive growth, China's economy is slowing, sending jitters across global financial markets.¶ So if China stumbles into a hard landing, how bad will the rest of the world fall?¶ According to HSBC economist, Frederic Neumann, a slowdown in the Chinese economy is "not exactly the end of it all."¶ Possible clues to China's fate could be gauged from how the world reacted to Japan's economic malaise, he reckons.¶ At the end of the 1980s, Japan's contribution to global gross domestic product was about the same as China does today.¶ While the Japanese economy has failed to muster meaningful growth since then, the world "sailed on with barely a blip in the 1990s" after Japan's boom and stumble in the decade before, Neumann noted in a report. After three decades of explosive growth, China's economy is slowing, sending jitters across global financial markets.¶ China's share of the world's growth in terms of purchasing power parity has jumped to well over 16 percent from 10 percent in the past decade while its share of global gross domestic product (GDP) in U.S. dollar terms has also tripled in the same period to just under 15 percent last year .¶ "So, if Chinese demand stumbles, would this knock out world growth? Not necessarily. Take the example of Japan in 1989 when the bubble burst. At the time, its share of global U.S. GDP was a touch above 15 percent. The subsequent slowdown, however, didn't push the world to the brink."

#### China growth slowdown does not spill over to the rest of the world

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On the effects on the world economy my impression is that there is also a great deal of exaggeration. China is the second largest economy in the world, for sure, and has become central for the global economy in many ways. But it’s role in the global economic problems has been overstated. In Brazil, for example, the Chinese slowdown played virtually no role, as I discussed [here](http://nakedkeynesianism.blogspot.com/2015/12/the-strange-and-misunderstood-reasons.html" \t "_blank). In the US the usual complaint is that the depreciation of the yuan is behind deindustrialization, and that the Chinese crisis, that has led to a more depreciated currency, is hurting the manufacturing recovery in the country. I am skeptical of the argument. The figure below shows manufacturing employment and a broad trade weighted exchange rate for the US.As it can be seen the decrease in manufacturing jobs, which started in the early 2000s (before that it was more or less constant; see discussion [here](http://nakedkeynesianism.blogspot.com/2011/05/manufacturing-jobs-have-declined.html" \t "_blank)) is connected to the entry of China in the World Trade Organization (WTO). But the collapse of manufacturing jobs went hand in hand with a depreciation of the dollar. And some of the, admittedly slow and small, recovery since the 2008 recession has gone with an appreciation of the dollar. This indicates that Free Trade Agreements (FTAs) and the WTO play a more important role than exchange rates.

#### China has no effect on the global econ - contributes less than 5%

Mariano 2/22/16 Keith Richard D. Mariano Posted on February 22, 2016 <http://www.bworldonline.com/content.php?section=Economy&title=not-yet-time-to-worry-about-spillover-from-china-crisis-think-tank-says&id=123459> )ski

In a statement released yesterday, the Asian Shadow Financial Regulatory Committee (ASFRC) noted how foreigners have “mistakenly” projected the connection between the tremors in China’s financial market onto the real economy.“The financial turmoil in China is very different from the financial turmoil in a Western economy. It does not indicate that there’s an economic crisis,” ASFRC member Leslie Young said in a panel discussion in Quezon City.The market rout in China, for instance, shows little correlation to gross domestic product (GDP) growth, according to the group of independent experts on economic policy issues relevant to financial markets in Asia and the Pacific.“This is because the stock market contributes only 5% of corporate financing and plays no role in financing pensions or as collateral for corporate loans,” the statement read.In contrast, a major collapse in a Western stock market will have serious economic implications because this would dampen consumer demand, weigh on GDP growth and magnify the pessimism over business prospects.The ASFRC also cited misconceptions surrounding the devaluation of the yuan in August, after the People’s Bank of China changed the exchange rate benchmark to a trade-weighted basket of major currencies from the dollar.The shift was intended to provide market forces greater role in determining the value of the yuan, as required if China would join the International Monetary Fund’s Special Drawing Rights basket, the ASFRC noted in the statement.“Retail investors interpreted the ‘devaluation’ as a desperate attempt to stimulate China’s economy... With a current account surplus of $600 billion in 2015, China has little reason to devalue its currency for this purpose,” the statement read.The group further downplayed the $1-trillion decrease in China’s reserves, saying only a “small” portion of the amount constituted capital flight driven by fear of massive devaluation or internal collapse.The collapse in China’s financial markets creates minimal “real effect” on the country and constitutes no substantial concern for the Philippines, ASFRC member Maria Socorro Gochoco-Bautista said on the sidelines of the event. “When should we be alarmed with what’s happening in China? When it has real effects on us. I don’t think the financial events in China have really much of a real effect not only on its economy but also in our economy.”Nevertheless, the negative developments in China’s financial markets have spilled over to the rest of the world. The main index on the Philippine Stock Exchange, for instance, entered a bear market in mid-January amid lingering concerns about China’s economy.“If you project the importance of a stock market in a country like China [in raising] funds for firms then your conclusion is likely going to be that firms are cash-starved and there’s no money for investment, etc. so that this is going to lower the growth rate,” Ms. Gochoco-Bautista said.The misconceptions arise from a “communication problem” between China and the Western press, which tends to present developments in China on Western premises, according to the ASFRC.“When you look at the headlines, it seems that China is about to collapse but if it goes from 10% to 6% annual growth, that is not a collapse,” said Ms. Gochoco-Bautista, an economics professor at the University of the Philippines-Diliman. The slowdown in China’s economic expansion has long been anticipated and remains far from alarming, said Mr. Young, an economics professor at the Cheung Kong Graduate School of Business.“Yet the fear that China is going to have hard landing can end up in something like a self-fulfilling prophecy. For example, if it exacerbates lower rates of investment and pessimism in the emerging markets, that would feed back into the Chinese economy,” Mr. Young noted.

#### Chinese economic decline doesn’t affect rest of world

Koesterich 15— Russ, Managing Director and head of Asset Allocation, is a member of the Global Allocation team within BlackRock's Multi-Asset Strategies Group, 2015 (“Will the Selloff in China Hurt the Global Economy?,” Nasdaq, July 17, Available Online at http://www.nasdaq.com/article/will-the-selloff-in-china-hurt-the-global-economy-cm497758, Accessed 06-23-2016, AV)

Chinese equities have been in freefall lately. Despite a rebound in recent days after numerous well-intentioned (if somewhat counterproductive) government attempts to break the fall, the Shanghai Composite is down roughly 25 percent from its peak.¶ It's no wonder, then, that many investors are asking: Does the selloff represent a systemic risk to the global economy? My take: Though China is the world's second largest economy, the volatility in China's stock market is unlikely to have a material impact on either the global or Chinese economy. Here are six reasons why.¶ The roller coaster ride in China is mainly a domestic one. Foreign investment accounts for around 1 percent of Shanghai-listed A-Shares, a market driven by Chinese retail investor sentiment, not fundamentals. Thus, when the A-Shares market moves, it moves sharply and quickly. On the other hand, Hong Kong-listed H-Shares, which more foreigners hold, aren't as skewed to retail and tend to be less volatile. So, while the H-Shares market didn't capture as much upside from China's bull market, it was more insulated on the way down.¶ The linkage between China's economy and its stock market isn't particularly strong. Unlike in the U.S., Chinese companies tend to access capital through bank lending rather than through equity markets, though the Chinese government is trying to encourage greater equity market capitalization via reforms. Indeed, the size of the Chinese stock market relative to China's gross domestic product ( GDP ) is fairly small.¶ Stock weakness doesn't necessarily lead to economic weakness , and this is true across economies. In fact, stock market weakness generally has less impact on the real economy than real estate weakness. In the U.S., where market cap relative to GDP is much larger than in China, the bursting of the tech bubble in 2000 only resulted in a particularly mild recession.¶ While Chinese growth is slowing, the pace is measured. While China's economic growth slowed in the first quarter, it managed to stabilize at 7 percent in the second quarter. Though most of the damage to the market didn't occur in the second quarter, thus far, the recent stock market volatility doesn't seem to be having a noteworthy impact on China's economic fundamentals.¶ Chinese officials remain in easing mode. Markets seemed to interpret Chinese government intervention to stem the selloff as coming too early and as a sign of panic from the Chinese authorities. However, some of the government measures-such as encouraging share buybacks-have helped stabilize markets. Looking forward, the People's Bank of China (PBOC) has plenty of spare power to support the Chinese economy and financial markets, unlike some developed market central banks, and it will likely continue to implement strong countermeasures. Indeed, any sign of slowing growth in China should be met with further easing policies , so we're going to see lots of stimulus in various forms to help mitigate the damage from the recent rout.¶ We haven't seen much of an impact on the global economy so far. The selloff in China could impact the U.S. via its effect on the dollar, consumer confidence and business confidence. We haven't seen this. Indeed, despite all the recent drama in China and Greece, the global economy and markets aren't too far off the trajectory they were on in early 2015.

#### China controls less of the world economy than though – effect of decline is minimal

Krugman 15 — Paul Robin Krugman is an American economist, Distinguished Professor of Economics at the Graduate Center of the City University of New York, and an op-ed columnist for The New York Times, 2015 (“Chinese Spillovers,” The New York Times, Aug 28, Available Online at http://krugman.blogs.nytimes.com/2015/09/23/chinese-spillovers/?\_r=0)

Let me start with the case for not worrying too much, which comes down to the fact that China’s economy, while big, is still a small fraction of the global economy — about 15 percent at market exchange rates, which both Buiter and I consider the relevant number. Now, we have a very old but still useful way to think about the simple economics of interdependence: the foreign trade multiplier. Imagine a world of two countries, A and B, in which A has a recession. This will cause A’s imports from B to fall, with a contractionary effect on B. B’s contraction leads to a fall in imports from A, leading to a further slump in A’s economy, leading to still lower imports from B, and so on.This may sound like an explosive process, but given realistic numbers it’s actually convergent, and in fact the later-round effects should be trivial. Chinese imports from the rest of the world are less than 3 percent of the ROW’s GDP. Suppose China experiences a 5 percent slump in its own GDP; given an income elasticity of 2, which is reasonable, this would mean a 10 percent fall in imports — but that’s a shock to the rest of the world of just 0.3 percent of GDP. Not nothing, but not that big a deal.

#### Effect of Chinese economic growth on world overstated - exports

Armstrong-Taylor 14— Paul, Resident Professor of International Economics at the Hopkins-Nanjing Center, 2014 (“Concerns that China's slowdown will hurt the global economy are unfounded,” China Economic Review, Aug 28, Available Online at http://www.chinaeconomicreview.com/paul-taylor-china-slowdown-impact-global-economy-unfounded, Accessed 06-23-2016, AV)

Earlier this year a RMB3 billion (US$487 million) trust fund issued by China Credit Trust Co. and marketed to customers at Industrial and Commercial Bank of China threatened to default. Though in the end investors did not suffer significant losses, the episode highlighted the riskiness of the rapid growth in trusts and wealth management products in China. A related and long-running concern of the China bears is the real estate sector. Construction is important for GDP and employment, but it is also connected to several other vulnerable sectors. Construction companies have been major beneficiaries of shadow bank lending; furthermore, construction is a major source of demand for producers of steel and concrete (many of which are already struggling with capacity) and land (sales of which underpin the budgets of many local governments). Financial firms, policymakers and increasingly the popular media have warned that a crisis in China's shadow banking or real estate sectors could pose a threat to the global economy – that it could even represent another "Lehman moment."¶ There are some reasons why these fears may be overstated. Most bullish commentators have focused on the possibilities of containing any crisis domestically. For example, although it has grown rapidly, China's shadow banking sector is still relatively small at 30% of bank assets (compared to 170% in the US). While real estate prices have increased sharply, incomes have mostly kept pace and demand, at least in first-tier cities, seems solid. Compared to most countries, the Chinese government has plentiful resources and tools to combat any crisis. For example, it can directly influence bank lending in a way that governments in developed countries cannot.¶ Even if China does avoid a crisis, it appears inevitable that growth will have to slow as it transitions to a more sustainable growth model. This too has caused concern that China may cease to be the engine of global growth. However, my recent research suggests that the world has little to fear from a slowdown in the Chinese economy. There are two main channels through which economic shocks can be transmitted between countries: Trade and finance. Let us consider each in turn.¶ One might expect that growth in trading countries such as China would have a bigger effect on other countries than countries that trade little. In fact, historically, openness has no statistically significant relationship with the transmission of growth internationally. However, the trade balance does matter: Growth in deficit countries affects other countries more than that in surplus countries.¶ How do we explain this? Exports are driven by foreign demand, so there is no reason to suppose that that demand would automatically decline if a country suffered a domestic recession. However, imports would probably fall and this would hurt foreign exporters and overseas growth. We would expect this effect to be particularly strong during a global recession when demand is most scarce. This is indeed what we see in the data.¶ Although China trades a lot, it runs a surplus. Furthermore, many of China's imports are supplies for their exports. If exports are not hit, there is no reason to suppose these imports would fall. For both these reasons, an economic slowdown in China may not have much effect on the rest of the world via trade.

## Overheating

### Growth Causes Overheating

#### Chinese economic growth causes inflation, overwhelming debt that crushes long-term growth

Shaffer 14 - Leslie Shaffer, 6-2-2014 ("Is China still growing too fast?," CNBC, 6-2-2014, Available Online at http://www.cnbc.com/2014/06/02/is-china-still-growing-too-fast.html, Accessed 6-29-2016, AH)

China may be implementing a series of easing measures to keep its economy expanding, but some analysts believe the mainland should let growth slow instead.¶ "China's potential GDP (gross domestic product) growth rate is no longer 7-8 percent, because of lack of productivity increases [and] because of their changing demographic profile and aging workforce," Ruchir Sharma, head of emerging markets at [Morgan Stanley](http://data.cnbc.com/quotes/MS" \t "_blank)Investment Management, said last week.¶ China set its 2014 GDP growth target at 7.5 percent, unchanged from 2013 – a sharp slowdown from the double-digit rates of previous years.¶ Read MoreA turning point at last for China's economy?¶ In the first quarter of 2014, the mainland's economy grew an annual 7.4 percent, slowing from 7.7 percent in the last quarter of 2013, and marking the slowest annual growth rate since the third quarter of 2012.¶ "To try to hit a growth target of 7-8 percent is taking on more and more debt," a precursor to likely economic trouble ahead, Sharma said.¶ China's debt-to-GDP ratio has risen from around 160 percent in 2008 to over 240 percent, he noted. At the same time, the country last year needed to borrow $4.00 to create $1.00 of GDP growth, up from around $2.00 of borrowing for $1.00 of GDP growth just five years ago," he said.¶ Read More[Is this the biggest macro risk China faces?](http://www.cnbc.com/2014/05/27/heres-the-biggest-macro-risk-china-faces.html" \t "_self)¶ This is one of the most rapid increases in debt that any country has seen in recent history," Sharma said. "It's taking more and more debt to produce less and less GDP over time."¶ He expects China's economic growth to slow sharply ahead.¶ [Video] ¶ ChinaFotoPress | Getty Images¶ Seamstresses work at a clothing company in Huaibei, China.¶ "That's going to test the reform mettle of the new administration out there on whether it's willing to bear the brunt of the economic slowdown now, because it leads to a better future and cleans up the debt mess, or it engages in more stimulus to keep the economy growing, which we think leads to even more problems down the road," he said. "The last thing China needs is more debt to keep growing."¶ Read More[How much is going clean costing China?](http://www.cnbc.com/2014/05/28/how-much-is-going-clean-costing-china.html" \t "_self)¶ But many analysts expect China's leadership will continue to take easing measures rather than let the economy slow further.¶ "Policy makers seem to have put deleveraging on the backburner," Credit Agricole said in a note Friday.

#### Fast growth spikes inflation, decreases living standards

Barboza 11 – David Barboza has won the Pulitzer Prize for International Reporting for exposing heavy corruption in the Chinese government and won the Pulitzer Prize for Explanatory Reporting, and has served as a New York Times correspondent since 2004, 2011, (“Fast Growth and Inflation Threaten to Overheat Chinese Economy,” NY Times, April 15, Available Online at <http://www.nytimes.com/2011/04/16/business/global/16yuan.html?_r=0>, Accessed 06-22-2016, AH)

SHANGHAI — Wang Jianren, a 56-year-old retiree in this bustling city of 20 million, says that over the years China has benefited tremendously from rapid economic growth. But like so many people here, he complains that inflation is beginning to eat away at those gains.¶ “Prices have gone up a lot,” Mr. Wang said at a vegetable market Friday. “It’s a very bad thing to have prices go up and down. Unstable prices make people nervous and make society unstable. In this sense, our generation even has some nostalgia for Mao’s era.”¶ This is the predicament China finds itself in today: Fast growth has fired up the country’s economic engines, but it has also led to stubbornly high inflation, which threatens to overheat the economy and undermine the long-running boom that the country has experienced.¶ The latest evidence of this came Friday when China said its economy had grown 9.7 percent in the first quarter of this year, certainly the strongest performance among the world’s biggest economies. But the government also said that in March the [consumer price index](http://topics.nytimes.com/top/reference/timestopics/subjects/c/consumer_price_index/index.html?inline=nyt-classifier) had risen 5.4 percent from the level of a year earlier, the sharpest increase in 32 months.¶ Analysts were not surprised by the figures, but some experts say they believe they may understate the real rate of growth and inflationary pressure. Bank lending, for instance, picked up strongly last month, and food, energy and raw material prices have risen sharply this year. In March alone, the government said, [food prices](http://topics.nytimes.com/top/reference/timestopics/subjects/f/food_prices/index.html?inline=nyt-classifier) rose 11.7 percent.¶ To prevent overheating, Beijing is trying to moderate growth and rein in inflation. During the past six months, the government has tightened restrictions on bank lending, raised interest rates, increased agricultural subsidies and even prevented Chinese companies from raising consumer prices.¶ Analysts, however, say the results have been mixed. Growth has begun to moderate from the torrid pace of 10 percent annual growth last year, but inflationary pressure has not abated; in fact, it has strengthened. Some analysts say inflation may not peak until June.¶ Although the government has promised to tame the property market, housing prices continue to climb, and much of this country’s growth continues to be fueled by real estate projects and government investment in infrastructure.¶ In the first quarter of this year, fixed asset investment, a broad measure of building activity, jumped 25 percent from the level of a year ago and real estate investment soared 37 percent, the government said Friday.¶ Gasoline prices have also jumped sharply, in line with global oil prices. Gasoline prices in China have risen from about $3.82 a gallon, or $1 a liter, in 2009 to about $4.50 a gallon today. Fast food chains have raised prices, and during just the past year the price of fruit has jumped more than 31 percent.¶ Export prices are also rising because of higher commodity, raw material and labor costs. And since China is the world’s biggest exporter, what happens in its coastal factories could eventually have a major effect on prices in other parts of the world.¶ Indeed, in the country’s biggest export zones, factory bosses regularly complain about worker shortages and higher labor costs.¶ The government has encouraged higher wages in the hopes of reducing the big income gap between the rich and the poor, and the urban and rural. But that is driving up the costs of production.¶ Many analysts say the government is going to have to do more to tame inflation.¶ “Despite the most aggressive period of tightening in years, the government cannot seem to slow the economy down,” Alistair Thornton, an analyst at IHS Global Insight, wrote in a research report Friday. “With inflation expectations still running high and prices at disconcerting levels, the government will need to press on with its tightening schedule.”¶ China’s current boom got under way in early 2009, during the global financial crisis, when Beijing moved aggressively to increase growth with a $4 trillion government stimulus package and record lending by state-run banks.¶ A loose monetary policy and big investments in local government projects revived powerful economic growth that analysts say quickly sent land, housing and food prices soaring.¶ As early as 2009, however, there were already concerns about the health of Chinese growth, largely because of worries about high property prices, heavy bank lending and overly aggressive investing by local governments, many of which had been amassing huge debts.¶ In recent months, the International Monetary Fund and a growing number of economists have warned China that a credit and asset bubble could derail the nation’s growth. Some experts are suggesting that soaring asset prices could eventually tumble, leading to a wave of non-performing loans at the big state-owned banks.

#### China growth causes overheating

Makin 11 - John H., 2011 ("Why China Overheats," AEI, 5-2-2011, Available Online at http://www.aei.org/publication/why-china-overheats/, Accessed 6-29-2016, AH)

Key points in this Outlook:¶ China is facing destabilizing inflation; capital has flowed into China must faster than it has flowed out, in part because Chinese residents are prohibited from investing abroad.¶ China’s reported inflation rate on consumer goods rose to 5.4 percent in March, but its implied inflation rate is 8.4 percent–a large discrepancy suggesting that China is underreporting its inflation rate.¶ Chinese authorities have taken some steps to lower inflation, but they may be delaying more drastic measures to avoid instability before the 2012 transfer of leadership.¶ China has the second-largest economy in the world–accounting for one-third of global growth in 2010–so a Chinese hard landing would be very damaging to the global economy.¶ China’s economy is overheating because for years capital has been flowing into the People’s Republic much faster than it has flowed out. Recently, capital inflows to China have accelerated so rapidly that even the usual measures to absorb the impact on growth of the money supply and spending have failed. Given the legal restrictions on nongovernment capital outflow, the only way China can slow the growth of excess liquidity and the upward pressure on inflation that has been building since last year is either to let the currency appreciate faster, raise interest rates more, or raise reserve requirements more. These steps would discourage banks from increasing lending and would slow the rush out of money into goods–the spike in spending–that is driving up prices.¶ China could solve its inflation problem in a more fundamental way by allowing its residents to export capital–that is, to invest abroad. The fact that only the Chinese government is allowed to openly invest abroad–and is doing so at a rate that, while rising, is still too low to avoid accelerating liquidity growth and inflation–illustrates the growing need to allow its citizens to invest abroad on their own. The resulting mix of foreign investments would probably be an improvement over that of the government, which has tended to focus on US and European government bonds. Rising inflation pressure resulting from bottled-up excess liquidity inside China would be relieved by allowing more capital outflows.

#### **Rapid Chinese economic growth causes overheating, global inflation**

O’Grady 11 - Sean O'Grady, 1-20-2011 ("China's overheating economy stokes fears for global inflation," Independent, 1-20-2011, Available Online at http://www.independent.co.uk/news/business/news/chinas-overheating-economy-stokes-fears-for-global-inflation-2190283.html, Accessed 6-29-2016, AH)

Fears of overheating and escalating inflation in the Chinese economy sent equity and commodity markets around the world tumbling yesterday, as the country returned to double digit growth rates.¶ Some £1trillion in loans by local banks helped the Chinese economy to record growth of more than 10 per cent last year, though escalating inflationary trends have raised fears about the sustainability of such expansion in her overheating economy.¶ The Chinese National Bureau of Statistics said the economy of the People's Republic expanded by 10.3 per cent in 2010, compared with about 1.7 per cent in the UK and 2.5 per cent in the US.¶ It means China has returned to double-digit growth, having fallen back during the world recession to 9.2 per cent in 2009 and 9.6 per cent in 2008. China has averaged growth of around 10 per cent for the past 20 years, leaving it on some measures as the world's second-largest economy behind the US, having overtaken Japan and Germany this decade. The world's "two-speed" recovery continues.

### A2: Growth Causes Overheating

#### It’s too hard to tell if an economy is overheating

Wolfers 15 - Justin Wolfers, 11-6-2015 ("Is the Economy Overheating? Here’s Why It’s So Hard to Say," New York Times, 11-6-2015, Available Online at http://www.nytimes.com/2015/11/07/upshot/is-the-economy-overheating-heres-why-its-so-hard-to-say.html, Accessed 6-29-2016, AH)

The problem is that no one knows whether unemployment is above or below its long-run sustainable rate, which is often called the natural rate. The latest data suggest that unemployment is currently 5 percent, while a[recent survey](https://www.philadelphiafed.org/research-and-data/real-time-center/survey-of-professional-forecasters/2015/survq315) found that some economists believe that the natural rate might be as low as 4.25 percent, while others think it’s as high as 5.8 percent.¶ Historically, an unemployment rate of 5 percent would be thought to be close to the natural rate. But with hundreds of thousands of part-timers still unable to find full-time work, it is hard to believe the labor market is close to overheating.

#### Growth spikes don’t cause overheating – 2011 proves

Holmes 11 - Frank Holmes, 4-19-2011 ("Will China’s Economy Overheat?," Business Insider, 4-19-2011, Available Online athttp://www.businessinsider.com/will-chinas-economy-overheat-2011-4?IR=T, Accessed 6-29-2016, AH)

China’s GDP growth continued at a blistering pace during the first quarter of 2011, rising 9.7 percent from the previous year, according to economic data released today from the People’s Bank of China. Once again this outpaced many forecasts—even that of the Chinese government—and reignited the discussion of China’s overheating economy. While its robust growth may raise a few eyebrows, the economy isn’t in danger of “red-lining.”¶ Andy Rothman, from Credit Lyonnais Securities Asia (CLSA) points out that the first quarter growth figures “[aren’t] dangerously high given the GDP growth rate and strong income growth” in the country. After rising nearly 8 percent during 2010, inflation-adjusted urban incomes rose 7.1 percent during the first quarter, according to CLSA. Rural incomes grew at 14.3 percent, up from just under 11 percent in 2010.¶ Fixed asset investment (FAI) also remains strong. China’s FAI grew 25 percent during the first quarter, a reversion to the long-term pace of FAI growth China saw for six-straight years prior to the government’s stimulus plan in 2009.¶ This pace is supported by a property sector that refuses to slow despite Beijing’s multiple efforts to tap the brakes. Property sales grew 15.8 percent on a year-over-year basis and commodity housing starts grew 19.5 percent in March. You can see from this chart that this is a much more manageable pace than the stimulus-induced spike we saw in March 2010. Current levels are much more on par with long-term trends.¶ Much has been said about empty housing prices in cities such as Shanghai and Beijing but UBS says that the sharp drop of sales in tier-1 cities have been more than offset by strong sales in most tier-2 and tier-3 cities. These are cities, such as Taiyuan and Xi’an in northwest China, which generally have urban populations of about 4-to-6 million people and are located away from China’s densely populated coastal areas.¶ Development in the interior has been a substantial driver in continuing China’s rapid growth. Insatiable construction demand from these inland regions helped push sales of wheel loaders—up 45 percent—and excavators—up 58 percent—during the first quarter. In addition, planned investment of FAI under construction rose 19.1 percent, according to CLSA. In addition, the government’s plans for extensive investment in social housing development—10 million units this year, in addition to carry-forward projects from last year—should provide an extra boost.¶ Chinese trade data released last week showed a 32.6 percent rise in imports during the first quarter. This figure includes a 12 percent rise in crude oil, 38 percent rise in metal-cutting machinery and a 32 percent rise in auto/auto-chassis from a year ago.¶ All of these factors are very supportive of demand for commodities such as cement, iron ore and copper.¶ China’s biggest threat continues to be inflation. The country’s Consumer Price Index (CPI) rose 5.4 percent in March, the largest rise in nearly three years. This is certainly something to keep an eye on but not yet at the levels needed to hinder growth or, more importantly, cause social unrest. Chinese government has been pulling all stops to curtail inflation. Recently, 24 commerce associations across the country have made a joint statement to support the government’s effort to defeat inflation. China Premier Wen Jiabao called on local government officials last week to help stabilize consumer product and housing prices.¶ Food prices rose about 11 percent in March, contributing about two-thirds of the increase in CPI. You can see from this chart that if you exclude food and residential inflation—which was up 23 percent—the inflation levels appear quite manageable.¶ The rise in food prices is a result of external factors and not symptomatic of an overheating economy. However, the rise in incomes we referenced previously negates a portion of this. In addition, CLSA’s Rothman thinks we are either at or close to the peak in food price inflation.¶ China’s March money supply (M2) growth rate was 16.6 percent. This was higher than February but 3.1 percent lower than the same period last year. This may be close to the government’s target money growth rate since it is in line with those prior to financial crisis. We think there is still room for money supply to further contract without damaging the government’s target GDP growth rate.

#### No impact to overheating – hard landings are wrong

Powell 7 — Bill Powell, 4-19-2007 ("Breaking News, Analysis, Politics, Blogs, News Photos, Video, Tech Reviews," TIME, 4-19-2007, Available Online at http://content.time.com/time/world/article/0,8599,1612783,00.html, Accessed 6-29-2016, AH)

In late February, the two major stock markets in China dropped sharply, and that helped trigger a brief global sell-off. Investors panicked, fearing that the Chinese economy was somehow falling off a cliff. As Thursday's growth number shows, that wasn't so. Not even close. Now, however, global markets are focused on a better question: is China's growth so strong that it is going to fuel inflation, followed by sharply higher interest rates, and, conceivably, problems in a deeply dysfunctional domestic banking system? And, will there be a hard landing, meaning a sharp reduction in growth from around 11% to anywhere between 6% and 8%?¶ The reason the Shanghai stock market cratered Thursday is that this has happened before: in the early '90s, authorities in Beijing let inflation get out of hand, and a hard landing ensued. In the first quarter of this year, inflation at 2.7% was at its highest level in two years, and money supply in China has been, in the view of some economists, excessive for quite a while now. Is fine-tuning really an option? Or is this freight train now rolling with such momentum that a messy derailment is likely, if not inevitable? Jun Ma, the chief economist at Deutsche Bank Securities in Hong Kong, has been one of the more accurate forecasters of the Chinese economy in recent years. He still believes the inflation threat is manageable, and that the authorities in Beijing can avoid a train wreck even while bumping up rates and trying to curb bank lending to, among others, the still red hot real estate sector.

#### No Chinese overheating – empirics disprove

Chen 7 - Reuters Editorial, 7-26-2007 ("Is China's economy overheating or not?," Reuters UK, 7-26-2007, Available Online at http://uk.reuters.com/article/china-economy-overheating-idUKNOA63134620070726, Accessed 6-29-2016, AH)

Other economists are less worried. Jonathan Anderson with UBS said he does not expect a draconian policy response. "With the exception of the official GDP figure itself, we can't find a single alternative data point in the economy that suggests egregious overheating, and most point to a stable or even slowing economy," Anderson said in a report. JP Morgan Chase economists added that non-food inflation remains well contained and strength in capital spending enjoys fundamental support from growing profits. So policy makers can take some comfort that the overheating risks may not be as severe as in past cycles, they wrote.

## Uneven Growth

### Growth Causes Uneven Growth

#### China’s economic model dooms it to exacerbated income inequality

Talley 15—Ian, holds a Masters Degree in International Journalism and writer on international finance, 2015 (“China Is One of the Most Unequal Countries in the World, IMF Paper Says,” The Wall Street Journal, May 26, Available Online at http://blogs.wsj.com/economics/2015/03/26/china-is-one-of-most-unequal-countries-in-the-world-imf-paper-says/, Accessed 06-22-2016, AV)

A widening gap between China’s rich and poor makes it “one of the most unequal countries in the world,” according to a new working paper published by the International Monetary Fund.¶ Authors Serhan Cevik and Carolina Correa-Caro write that the rich are gleaning most of the fruits of the transition from a system of centrally-planned socialism to a market-oriented economy.¶ Although per-capita income has grown and the number of people living on less than a $1.25 a day has plummeted, income inequality has skyrocketed, the economists said. The top quintile of earners now pull in nearly half of total income while the poorest quintile of earners account for under 5%.¶ “China’s widening income inequality is largely a reflection of faster income growth among the rich, rather than stagnant living standards among the poor,” the two economists said.¶ With an estimated 2.4 million millionaire households, China now has more than any country but the U.S.¶ China’s credit-fueled investment and export-led development model are likely the primary drivers of the sharp increase in income inequality over the last three decades, they said.¶ Beijing’s economic strategy has aimed at higher growth rates. Although that effort may have lifted many Chinese out of poverty, the two economists said there’s mounting evidence that the widening income gap could weigh on future growth. That, they said, could come “with significant social consequences, especially in a country like China aiming to move beyond the ‘middle income’ status.”

#### Westernization of the Chinese economy will further uneven growth

Yin 13— Sharon, Global Economics Research Analyst at Goldman Sachs, 2013 (“Economic Growth and the Imbalance of Wealth Distribution in China,” Yale Economic Review, March 11, Available Online at http://www.yaleeconomicreview.org/archives/378, Accessed 06-22-2016, AV)

China’s economy has been expanding exponentially since Deng Xiaoping first instituted reforms, but the ratio of total wages to GDP has declined from 45% to about 36% in the last 10 years. With one of the highest levels of inequality in the world, income gaps between urban and rural households in China continue to widen as the growth in the economy and the consequent wealth generation is not shared equitably across all households, and especially rural households. In recent years, the gap between the rich and poor in China has deepened with the widespread corruption of government officials. The inequality of wealth, alongside other social injustices, causes great discontent and threatens the stability and growth of China’s economy and has triggered a series of social and economic problems.¶ Though most people blame the corruption of the Chinese government and officials for the inequality of income, the roots of inequality are the economic growth models and wealth distribution policies that have been instituted since the beginning of the reforms. As China tried to adapt to the western model and make its economy more market-oriented, it loosened regulations and decentralized state functions. But as these controls transferred to local government, the fiscal transfers to the local government either dramatically decreased or were completely cut off. The central government has not been collecting adequate tax revenues from enterprises and this has led to massive inequality among households. In addition, funding for education, healthcare, pensions and other public services has been decreased dramatically with the result being that wealth inequality has been made even more acute.

#### Chinese economic growth causes immense income inequality – history proves

Sicular 13— Terry, professor of economics, University of Western Ontario, 2013 (“The Challenge of High Inequality in China,” The World Bank, August, Available Online at http://www.worldbank.org/content/dam/Worldbank/document/Poverty%20documents/Inequality-In-Focus-0813.pdf, Accessed 06-22-2016, AV)

In March 2013, before leaving office, China’s¶ then-premier Wen Jiabao delivered his final¶ assessment of the state of Chinese society¶ to the National People’s Congress. In it, he¶ gave his administration mixed marks on their¶ pledge to reduce income inequality. Wen warned¶ that Chinese development was “unbalanced”¶ and that China “still face(s) many difficulties and¶ problems in (its) economic and social development”¶ (New York Times 2013).¶ China recently completed a decade under the¶ leadership of former president Hu Jintao and¶ Wen, the former premier. During the period¶ from 2003 to 2013, China pursued a “harmonious¶ society” policy agenda that emphasized¶ equitable growth. China implemented a wide¶ range of policy measures designed to reduce¶ disparities and to protect the economically vulnerable.¶ These measures included agricultural support policies,¶ social welfare transfers, targeted tax reductions, minimum wage¶ increases, and increased spending on poverty alleviation.¶ Despite these policies, income inequality in China has in recent¶ years remained stubbornly high. As shown in Figure 1, China’s¶ Gini coefficient (a measure of inequality ranging from zero, which¶ represents perfect equality, to one, perfect inequality) rose from¶ about 0.3 in the early 1980s to more than 0.45 in the early 2000s.¶ After 2000, the Gini rose further to a high of 0.49 in 2008. Since then it has declined slightly, but remains well above 0.45.¶ With a Gini approaching 0.5, China’s level of income inequality¶ is in the same ballpark as that of relatively high-inequality¶ Latin American countries such as Mexico (0.51), Nicaragua¶ (0.52), and Peru (0.48), although still lower than Brazil and¶ Honduras (0.56–0.57).¶ China is now among the least equal¶ percent of countries worldwide.¶ Very few Asian countries belong¶ to this group.

#### Increased Chinese private property widens the income gap

Sicular 13— Terry, professor of economics, University of Western Ontario, 2013 (“The Challenge of High Inequality in China,” The World Bank, August, Available Online at http://www.worldbank.org/content/dam/Worldbank/document/Poverty%20documents/Inequality-In-Focus-0813.pdf, Accessed 06-22-2016, AV)

During the Maoist era, private property was prohibited. In the¶ 1980s, tentative steps were taken to allow private ownership of¶ some forms of property such as livestock, vehicles, and equipment¶ used for family businesses. In the 1990s, new policies¶ opened the way for private ownership of a wider range of assets¶ and on a larger scale. This included the private ownership of¶ urban housing, which began in the 1990s and was basically¶ completed by 2005. Other complementary policy measures¶ promoted the development of urban real estate markets for both¶ residential and commercial property. It was during this time that¶ the government began to foster the development of domestic¶ financial markets and stock markets, and allowed the emergence¶ of private businesses. These changes created new mechanisms¶ for household saving and wealth accumulation, and Chinese households were rapidly transformed into property owners. In¶ the mid-1990s, few Chinese households owned their homes; only¶ 10 years later, more than 90 percent of Chinese households were¶ homeowners (Sato et al. 2013).¶ Private property generates income for households through¶ interest earnings, dividends, rents, and capital gains. Because of¶ data limitations and the underreporting of these forms of income¶ in the survey data, some uncertainty exists about their size and¶ distribution. Available estimates, however, show substantial¶ increases in the importance of asset income. For example, Sato¶ et al. (2013) report that the share of asset income in household¶ income nearly doubled in the five years from 2002 to 2007, from¶ about 8 percent to 15 percent.¶ As in most countries, asset income in China is distributed more¶ unequally than wage earnings and other components of income.¶ Therefore, the growth in asset income for those who own property¶ has contributed to increased levels of inequality. Based on¶ calculations using CHIP data, we found that in 2002 asset income¶ contributed to 8–10 percent of national income inequality; by¶ 2007, it contributed to 13–19 percent.

#### The rise of China’s service sector will only further exacerbate income inequality

Feng 11— Wang, senior fellow at Brookings and the director of the Brookings-Tsinghua Center for Public Policy and one of the world’s leading experts on demographic and social changes in China, 2011 (“The End of ‘Growth with Equity’? Economic Growth and Income Inequality in East Asia,” East-West Center, June, Available Online at http://www.brookings.edu/~/media/research/files/articles/2011/7/china%20economy%20wang/07\_china\_economy\_wang.pdf, Accessed 06-22-2016, AV)

The most significant case of rising inequality in¶ East Asia is China. China not only has the world’s¶ largest population but also, in recent years, the world’s¶ most spectacular economic growth and most rapidly¶ increasing income inequality. Income inequality measured¶ by the Gini index rose from around 0.30 in the¶ early 1980s to over 0.45 by the turn of the century.¶ Such a change marked China as having the fastest¶ income-inequality increase of any large country over¶ the last three decades and, now, one of the countries¶ with the highest income inequality in the world.¶ What caused such a radical change? The global¶ rise in income inequality occurred during a period of¶ worldwide capitalist expansion fueled by an unconstrained¶ free-market ideology and the rise in power¶ of multinational corporations challenging and undermining¶ state and local authority. The collapse of most¶ global communism near the close of the 1980s further¶ contributed to a sense of the triumph of the capitalist¶ system.¶ Over the last several decades, the world’s more advanced¶ economies moved from industrial to postindustrial¶ based. Large-scale manufacturing industries,¶ frequently associated with more equitable wages, were¶ replaced by the expansion of service sectors where pay¶ is much more heterogeneous and unequal. At one¶ end of these service sectors (e.g., finance and information¶ technology) are a small number of extremely¶ well-compensated individuals while at the other end¶ of the spectrum (e.g., temporary hires) are far more¶ numerous lowly paid individuals.¶ An accelerating trend of rising income inequality has¶ since been observed almost everywhere in the world.¶ In the Untied States, for example, the real income of¶ 60 percent of all families has remained essentially¶ constant since the 1970s while by the late 1990s the real income of the top five percent of the US population¶ had risen by nearly 50 percent.5 In almost all¶ other major industrialized countries (e.g., Australia,¶ Canada, France, Italy, Sweden, the United Kingdom,¶ and the former West Germany) income inequality¶ also increased after the 1970s. A comprehensive study¶ of 73 countries reports that, for the period of 1950 to¶ 1995, in all but 9 countries inequality either increased¶ (in 48 countries) or remained constant (in 16 countries).¶ These 73 countries accounted for 80 percent¶ of the world’s total population and 92 percent of the¶ world’s GDP.6¶ Adding to the global forces driving rising inequality¶ was the lessening, among East Asian societies, of¶ localized forces that earlier had contributed to growth¶ with relatively equitable distribution. Declining fertility¶ and mortality rates marked a rapid demographic¶ transition in this region. Families and kin networks,¶ previously the main sources transmitting and nurturing¶ the values of collectivism, became older, smaller,¶ and weaker. Western individualistic values, introduced¶ and disseminated through the arrival of modern media¶ ranging from TV to the internet, greatly challenged¶ and undermined traditional collectivist values.¶ In East Asian societies including Japan, South Korea,¶ and Taiwan, as the pace of economic growth began to¶ slow and the service sector began to expand, opportunities¶ became scarcer and competition more intense.¶ In China a deliberate state policy of economic growth¶ targeted to “make some people rich faster and earlier”¶ has more than fulfilled its intent. Over time the differences¶ in income and wealth, relatively small to begin¶ with, have become wider and wider and have evolved¶ into an apparently durable new social stratification¶ of income inequality.

#### Chinese economic growth positively correlates with its income inequality

Feng 11— Wang, senior fellow at Brookings and the director of the Brookings-Tsinghua Center for Public Policy and one of the world’s leading experts on demographic and social changes in China, 2011 (“The End of ‘Growth with Equity’? Economic Growth and Income Inequality in East Asia,” East-West Center, June, Available Online at http://www.brookings.edu/~/media/research/files/articles/2011/7/china%20economy%20wang/07\_china\_economy\_wang.pdf, Accessed 06-22-2016, AV)

Over the last half century economic growth in Asia,¶ especially East Asia, has fundamentally altered the¶ world’s economic and, consequently, political landscapes.¶ In a short 50 years this region has grown into¶ the economic powerhouse of the world. In 1955¶ China, Japan, South Korea, and Taiwan encompassed¶ over one quarter (26.66 percent) of the world’s population¶ but generated only 9 percent of the world’s¶ gross domestic product (GDP).1 Five decades later¶ East Asia’s population, measured against the world’s¶ total, had fallen to 23.24 percent while its share of¶ the global economy had grown nearly three-fold to¶ 25 percent. The region is now the home of the world’s¶ second and third largest economies. With China¶ spearheading the region’s further expansion in global¶ economic power, followed by Japan, South Korea, and¶ Taiwan, East Asia’s economic ascendance is continuing.¶ During the five decades since 1955 these East¶ Asian economies grew from among the poorest to¶ among the richest in the world.¶ What is equally remarkable is that in the 1960s¶ and 1970s and into the mid-1980s growth in three¶ of these East Asian economies—Japan, South Korea,¶ and Taiwan—was associated with a particular identity,¶ that of “growth with equity.”2 The economic¶ upsurge not only increased their total GDP it also¶ benefitted most, if not all, of the population through¶ rising income levels and rising standards of living.¶ The economic growth seen in Japan, South Korea,¶ and Taiwan was accompanied by a relatively equitable¶ distribution of income throughout their populations.¶ This pattern of economic growth coupled with a¶ relatively equitable income distribution helped these¶ economies avoid social unrest and develop or consolidate¶ democratic governments.¶ At the close (2005) of this half-century of economic¶ progress, the future of the East Asian “growth with¶ equity” model was already in serious question. The limited¶ income inequality observed in the middle stages¶ of this regional economic growth is today increasingly¶ being replaced by growing income inequality. The¶ largest economy in the region, China, which now¶ leads the region’s economic growth, also leads in the¶ region’s growth of income inequality.

### Growth Solves Uneven Growth

#### Growth key to solving income inequality – China’s history proves

Lazear 15— Edward, award-winning American economist, the Morris Arnold and Nona Jean Cox Senior Fellow at the Hoover Institution at Stanford University and the Jack Steele Parker Professor of Human Resources, Management and Economics at Stanford Graduate School of Business, 2015 (“Want to Reduce Inequality? Consult China, Vietnam and India,” The Wall Street Journal, March 31, Available Online at http://www.wsj.com/articles/edward-p-lazear-want-to-reduce-inequality-consult-china-vietnam-and-india-1427844560, Accessed 06-30-2016, AV)

President Obama has called income inequality the “defining challenge of our time.” Many progressives blame the market economy and doubt John F. Kennedy’s view that “a rising tide lifts all boats.” In 2011 Mr. Obama chided those who believe “the market will take care of everything.” It’s a “simple theory,” he said. “It fits well on a bumper sticker. Here’s the problem: It doesn’t work. It’s never worked.”¶ The president and those who side with him ignore two fundamental points. First, the past three decades have seen a dramatic improvement in the standard of living of the world’s poor, most notably in China and India. Second, there is little doubt that the cause for the improvement has been a move toward markets and away from government-managed economies.¶ There are two ways that inequality can be reduced. The rich can be made poorer or the poor can be made richer. While the most extreme redistributionists might prefer the former, most reasonable people—even in Communist China—prefer the latter. And judged this way, the world has done well.¶ Consider some facts: In 2013, the World Bank reported that the number of people world-wide living on less than $1.25 a day had decreased dramatically since the early 1980s. In 1981 half those in the developing world had income below this threshold. By 2011 only 17% lived on less than $1.25 a day. In China 84% fell below the level in 1981, a proportion that shrunk to 6% by 2011. In India the figure fell to 24% in 2011 from 66% in 1979.¶ The fact that inequality within India and China has grown is of minor consequence. What’s important is that the average citizen of these countries, once among the poorest in the world, has seen income rise substantially. Though China and India are the most striking examples because of their size, smaller developing countries have experienced similar changes. In 1993, Vietnam had 64% of its then nearly 70 million people in poverty. But by 2008, after implementing market-based reforms, and with a population of 85 million, the percentage of Vietnamese in poverty had fallen to 17%, according to the World Bank.¶ In China, reduction of state control began in the 1980s under Deng Xiaoping. These included domestic policies that replaced much of the centrally planned economy with market-based activity as well as opening China to international trade and foreign investment. Early reforms occurred in agriculture, where farmers were allowed to retain surpluses from their plots.¶ In 1986 China’s “Contract Responsibility System” was enacted, which allowed enterprises to retain profits above quota requirements. In the same year China established “the General Principles of Civil Law,” which provided the basic rules for a market economy. These included recognition of private-property ownership through shares that could be transferred, creditor rights that required the repayment of private debts, and intellectual-property protection that defined authorship and patents.¶ In 1979 China established a law for foreign joint ventures and in 1986 applied to rejoin the General Agreement on Tariffs and Trade. In 1988 the government began allowing large private firms to operate in the economy; even state-owned enterprises became autonomous entities, responsible for their own profits and losses. In that same year, according to the International Monetary Fund, 53% of retail sales in China occurred at market prices.¶ India undertook major reforms in the early 1990s after obtaining a bailout from the IMF, conditioned on economic liberalization, which included reductions in tariffs, deregulation and lower taxes. By 1996 the average tariff in India was 26%, down from 87% in 1990. Licensing requirements, which restrict entry and resource mobility, were eliminated in most industries.¶ In 1992 India liberalized capital markets and opened them to overseas investors. Reserve requirements, which were well above those for most developed countries, were reduced in the late 1990s and banks were given more flexibility in setting their own loan rates. The share of bank assets held by private banks grew to 17% in 1998 from 11% in 1992.¶ In Vietnam, collective farming ended in 1986 and control over state-owned facilities was loosened. In 1989 reforms liberalized all prices, including interest and foreign-exchange rates. The consequence has been a sharp reduction in poverty and impressive growth rates that, according to the World Bank, have averaged more than 6% over the past decade.¶ The improvement in the standard of living of the poor in China, India and elsewhere is a direct result of allowing markets to work. Still, these countries are very different from rich, developed countries and it might be argued that their lessons are not relevant for wealthier countries. Perhaps not, but there is no compelling evidence that the poorest citizens of rich countries fare better when there is more government control of the economy.

#### Growth solves income disparity – poverty issue proves

Stuart 15— Elizabeth, senior policy advisor for Oxfam International, 2015 (“China has almost wiped out urban poverty. Now it must tackle inequality,” The Guardian, Aug 19, Available Online at https://www.theguardian.com/business/economics-blog/2015/aug/19/china-poverty-inequality-development-goals, Accessed 06-22-2016, AV)

Whether it’s the currency devaluation or the stock market rout, the economic news coming out of China seems unremittingly negative – and that’s not to mention the horrific explosions in Tianjin.¶ But here’s some good news. Yet-to-be-released data shows that China has all but eradicated urban poverty. For a country with huge numbers of poor people streaming into its cities, many of whom living initially in conditions of abject misery, this is an extraordinary success. It has been achieved, in large part, because of a government subsidy paid to urban dwellers to bring incomes up to a minimum level of 4,476 yuan ($700 or £446).¶ The data comes from the latest survey in the China Household Income Project (Chip) series and will not be formally published until next year. It shows that in 2013 the share of people living in cities below this minimum income line was just 1.6%, adjusted for purchasing power parity. According to Prof Li Shi, director of Beijing Normal University’s institute of income distribution who works on Chip, that’s mostly accounted for errors in targeting by the government.¶ And it seems that the data is unusually robust: it is based on a behemoth household survey for which more than 100,000 families recorded their income and consumption every day for a whole year.¶ China has lifted more people out of poverty than anywhere else in the world: its per capita income in increased fivefold between 1990 and 2000, from $200 to $1,000. Between 2000 and 2010, per capita income also rose by the same rate, from $1,000 to $5,000, moving China into the ranks of middle-income countries. Between 1990 and 2005, China’s progress accounted for more than three-quarters of global poverty reduction and is the reason why the world reached the UN millennium development goal of halving extreme poverty. This incredible success was delivered by a combination of a rapidly expanding labour market, driven by a protracted period of economic growth, and a series of government transfers such as the above urban subsidy, and the introduction of a rural pension. The question now is whether the government can repeat this success and eradicate extreme poverty entirely: after all upto one person in 10 in the country remains poor. The current economic and social five year plan (the country’s 12th) aims to eliminate all poverty by 2020 (10 years ahead of the newly agreed UN Sustainable Development Goal poverty eradication target, and it seems likely that this target will be reiterated in the new five year plan to be agreed by the Chinese Communist party’s central committee next year. If that’s to be achieved, the government will need to keep up its expensive transfer programmes, even at a time of economic downturn.¶ In addition, inequality remains a big issue and will need to be tackled. Although China’s Gini Coefficient for income inequality is improving from its 2008 peak of 0.491, it remained at a relatively high level of 0.473 in 2013. This is despite the government’s record of progressive taxation, which has had a distributional effect, as well as raising money to fund transfer programmes. There are also significant gender and regional inequalities, meaning the government will need to do more to target women and people living in rural areas (as well as other groups such as disabled people) to ensure that no one is left behind.

#### Growth key to tackle income disparity – positive correlation

Tiezzi 14— Shannon, Editor at The Diplomat. Her main focus is on China, and she writes on China’s foreign relations, domestic politics, and economy, 2014 (“China’s 'War Against Poverty',” The Diplomat, January 29, Available Online at http://www.mckinsey.com/industries/public-sector/our-insights/the-urbanization-solution, Accessed 06-22-2016, AV)

As China’s overall GDP draws ever closer to surpassing the United States’ for the position of world’s largest, more and more commentators have taken to pointing out China’s relatively low per-capita GDP. According to the World Bank’s data, in 2012 China’s per capita GDP was $6,091, lagging behind not only the United States ($51,749) but countries such as Iraq ($6,455), Azerbaijan ($7,164), Botswana ($7,238), and Columbia ($7,748). It’s a testimony to the simple fact that, while China’s overall economy is massive, it must provide for 1.3 billion people.¶ Still, China’s 2012 per capita GDP was almost double its 2009 number of $3,749, showing major progress. The World Bank estimates that, since 1978, China’s economic boom “has lifted more than 500 million people out of poverty.” While China’s overall GDP growth targets get all the attention, the government has also been setting targets for per capita income growth. The current goal is for per capita incomes to have doubled (compared to 2010) by 2020, which would put China at $8,800.¶ Of course, statistics like per capita GDP, while they can provide a general idea, are of limited use in measuring poverty. It’s been noted, by scholars within and without China, that China’s rapid economic growth disproportionately benefits those living in developed urban areas (mostly concentrated near the east coast), while inland regions languish. A 2012 survey done by Peking University showed, for example, that average family income for urban residents was $2,600 a year versus only $1,600 a year for rural resident. In 2010, China Daily reported that China’s urban-to-rural income ratio was 3.33:1, the highest level since 1978.¶ As a result, China’s per capita GDP doesn’t adequately capture the extent of the poverty problem. World Bank notes that China has about 128 million people living below the national poverty line (which equates to about $1.8 a day) — making China second only to India in terms of the largest population of the poor. China’s own official estimates are lower, but only slightly so, with Xinhua reporting 98.99 million rural poor alone in 2012. To put that in context, if we go by the World Bank estimate, China’s impoverished population is greater than the total population of all but nine countries in the world (Japan, ranked #10 in total population, has just over 127 million people). It’s no wonder that Li is publicly devoting himself towards addressing this problem.¶ However, Li is hardly the first Chinese leader to promise to help the poor gain a share of China’s growing wealth. In 2007, then-President Hu Jintao famously pledged to “reverse the growing income disparity” within China — instead, as the China Daily report in 2010 found, the income gap reached record levels under Hu’s tenure. Hu’s governing partner, Premier Wen Jiabao also announced in 2011 that China would try to “basically eliminate poverty” by 2020.¶ As U.S. President Lyndon B. Johnson found in the 1960s, declaring a “war on poverty” is the easy part. The hard part is actually putting in place systemic reforms that address the root causes of wealth inequality. China, with its nominally socialist system and a government that came to power through promises to the rural poor, has both more incentives and more policy tools to achieve wealth redistribution than the capitalist U.S. Yet the problem persists. How is Li planning to tackle it?¶ From the Xinhua article, it seems that Li’s “war on poverty” is another name for his urbanization plan. Li has been actively pushing to transfer China’s population from rural to urban areas, which he hopes will lead to higher standards of living for China’s rural poor and increased domestic consumer demand — a “win-win” solution for China as its tries to rebalance its economy. A close look at Li’s comments in Monday’s Xinhua article shows the connection between his war on poverty and the existing urbanization plan. People living in “inhospitable areas” will be relocated, while the central government will “nurture small towns” for the relocated, formerly rural population. In other words, Li seeks to solve the rural-urban divide (and take down poverty) by turning rural residents into urban ones.¶ Li has now doubled-down on this strategy, which is not without its risks. A New York Times article last year documented the issues with the relocation strategy, including shoddy construction and a lack of jobs in the artificially created urban areas. Meanwhile, there are concerns that urbanization (which generally involved removing small farmers from their land) might interfere with China’s food security.¶ In addition, China’s urbanization strategy is walking a tightrope — the plan is to shift China’s growth model to one more centered on domestic consumption, and urbanization is assumed to increase such consumption. However, as China’s growth slows (to, it should be noted, a “mere” 7 percent or so year — a level that most developed countries still envy) so will the trickle-down benefits to individual’s incomes. Should the pace of income growth slow too quickly, domestic consumption will stall, jeopardizing China’s economic rebalance.

#### Economic growth is inevitably linked to tackling income inequality

Salidjanova 13— Nargiza, Policy Analyst, Economics and Trade, 2013 (“China’s New Income Inequality Reform Plan and Implications for Rebalancing,” US-China Economic Security Review Commission, March 12, Available Online at http://origin.www.uscc.gov/sites/default/files/Research/China%20Inequality%20-%203%2012%2013.pdf, Accessed 06-30-2016, AV)

A new reform plan, released by the State Council in February 2013 after much delay, acknowledged¶ these inequalities, noting that “the urban-rural gap and the difference in citizen’s income is relatively¶ large, income is irregularly distributed, there are obvious problems of grey income and illegal income,¶ and some of the masses live in difficult conditions.”3¶ The program to reduce inequality had been in the¶ works for eight years, spanning half-dozen drafts—all of them stymied by opposition from state-owned¶ firms and other powerful actors that would lose out in any income-redistribution scheme.4¶ The 35-point blueprint, published on the central government’s website under the prosaic title, “Income¶ Distribution Plan,” is aimed at boosting minimum wages to at least 40 percent of average salaries,¶ loosening controls on lending and deposit rates, and increasing spending on education and affordable¶ housing. Other reforms include a requirement that state-owned enterprises (SOEs) should contribute¶ more of their profits to the effort of reducing inequality, and a commitment to push through market-oriented¶ interest rate reforms to give savers a better return and more security.5¶ At least in theory, these measures signal an attempt to shift the economy away from the current¶ reliance on investment spending and toward increased consumption as an underpinning for economic growth. However, China has no shortage of plans to accomplish this very kind of rebalancing, starting¶ with the 11th Five-Year Plan and continuing most recently with the 12th Five-Year Plan.¶ i¶ All were put into¶ effect only half-heartedly or got scuppered in the implementation phase, despite Hu Jintao’s oft-stated goal of creating a “harmonious society.”¶ ii As is too often the case with many Chinese government¶ pronouncements, poor implementation trumps lofty intentions.

#### Growth key to confront income inequality – former urbanization policy proves

Mai 12— Lu, secretary general of China Development Research Foundation. Previously he was director of the Experimental Area Office for Rural Reform, 2012 (“The urbanization solution,” McKinsey & Company, October, Available Online at http://www.mckinsey.com/industries/public-sector/our-insights/the-urbanization-solution, Accessed 06-22-2016, AV)

Ever since China started pursuing a policy of reform and opening-up of markets three decades ago, it has experienced rapid economic takeoff and has made its entry into the ranks of middle-income countries. In 2011, China’s per capita gross domestic product reached $5,400, using current exchange rates. That figure would be even larger using the World Bank’s purchasing-power-parity formula. So, in light of its economic and social progress, China now qualifies as a middle-income country. At the same time, however, China faces some serious challenges, such as socioeconomic inequalities, an imbalanced economic structure, corruption, environmental and ecological degradation, and more, all of which are intertwined and represent stumbling blocks in China’s path toward becoming a sustainable and equitable high-income country. China needs to address these problems with strategic skills as early as possible.¶ So, is there an entry point that allows China to tackle these challenges with a systematic policy package? The answer is yes. The answer is urbanization. As one of the most crucial processes of social change in modern China, China’s urbanization was artificially suppressed for quite a long time before it gained momentum in the mid-1990s.¶ Urbanization, on the one hand, creates huge opportunities for China in many sectors, such as narrowing urban-rural gaps, reducing regional disparities, expanding domestic demand, rebalancing the economy, developing civil society, improving governance, utilizing resources more efficiently, and controlling pollution. However, China is not taking full advantage of the potential of urbanization to help cope with its challenges due to a series of institutional constraints.¶ For example, while more than 150 million rural migrants work and live in cities, they cannot have local urban registered residences because of the current household-registration system. Hence, they are excluded from the local public-service system. This in turn increases the vulnerability of migrant workers and their families and contributes to the fragility and inequality of the economy as a whole.¶ It should be an urgent strategic choice for China to forge ahead with urbanization and carry out a series of reforms to facilitate it. First, market-oriented reforms should be deepened. Urbanization is primarily a market-oriented process, which accumulates and restructures capital, technology, and other assets and diverts them into productive channels. The government should speed up the introduction of efficient markets for labor, capital, and land, spur the development of technology, and strengthen intellectual property rights. Urbanization is also a process that allows the government to tap its full potential. In the interest of comprehensive and long-term social development, the government should adopt various policy measures to reduce market failures, such as clarifying property rights, adopting antimonopoly measures, and protecting the environment.